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ABSTRACT

The papers in this volume deal with the causes, cures, and magnitude of unemployment. Musgrave, Killingsworth, and Okun discuss the opposing structuralist and deficient demand theories of unemployment. Garth Mangum, Curtis Allen, William Caples and Alice Rivlin offer their experience concerning the role of government and industry in curing unemployment, through both vocational training programs, and increased public expenditures to increase aggregate demand. William Bown and Paul Jacobs present their thoughts on the dimensions of unemployment. (BH)

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UNEMPLOYMENT IN A PROSPEROUS ECONOMY

A Report of
The Princeton Manpower Symposium
May 13-14, 1965

Edited by
William G. Bowen
Frederick H. Harbison

A Joint Project
of
The Industrial Relations Section
Woodrow Wilson School of Public and International Affairs
The Princeton University Conference
Princeton University

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Princeton, New Jersey, U.S.A.

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FOREWORD

THE PRINCETON MANPOWER SYMPOSIUM

EACH year the President and the Secretary of Labor submit to the Congress an Annual Report on Manpower. This report reviews the nation's manpower requirements, resources, utilization and training as well as the measures being taken to deal with the major problems of development of the labor force. It thus provides a convenient point of departure for discussion of employment and manpower policy in this country.

About 75 participants from industry, labor, government and universities were invited to Princeton on May 13 and 14, 1965, to make a critical examination of those parts of the report dealing with the nation's unemployment problem and the various proposals for dealing with it. This volume contains the papers and the summary of the discussions which took place.

This Princeton Manpower Symposium was organized as a joint project of the Industrial Relations Section, the Woodrow Wilson School of Public and International Affairs, and the Princeton University Conference. The directors of the Symposium wish to take this opportunity to thank all those who contributed papers, who acted as discussion leaders, and who participated in the discussion.

This volume should be of interest to members of the Congress, employers, labor union leaders, government officials, and university and research personnel who are concerned with both the short-run and long-range aspects of the problem of persistent unemployment in a highly prosperous nation. The papers and discussion may be useful also in encouraging efforts to shape a comprehensive national strategy to combat unemployment as well as in pointing up some critical issues for consideration in the 1966 Manpower Report of the President.

William G. Bowen
Frederick Harbison
Directors of the Princeton
Manpower Symposium

UNEMPLOYMENT IN A PROSPEROUS ECONOMY

1

SUMMARY AND CONCLUSIONS

William G. Bowen and Frederick H. Harbison

The first two papers in this volume, by William G. Bowen and Paul Jacobs, deal with the dimensions and characteristics of the unemployment problem. Bowen argues that, notwithstanding the improvement in labor market conditions between 1963 and 1964, the overall unemployment rate in the United States is much too high when compared with this country's experiences during the earlier part of the postwar period and especially when compared with the performance of other advanced countries. The fact that prices have risen much less rapidly in the U.S. than in the other advanced countries is consistent with the view that this country has, in effect, purchased relative price stability by tolerating high levels of unemployment.

As is well known, some groups of people are much more susceptible to unemployment than others. Bowen examines in some detail the experience of two particular groups with chronically high unemployment rates—nonwhites and teenagers. He finds that the unemployment rates of both groups are heavily influenced by the overall unemployment rate, an increase of 1 percentage point in the overall rate being associated with an increase of 1.8 percentage points in the nonwhite unemployment rate, 1.8 points in the male teenage rate, and 1.5 points in the female teenager rate. A second important finding is that there is a significant relationship between time and the unemployment rates of these groups. Abstracting from the influence of the overall unemployment rate, the nonwhite rate increased about two-tenths of a percentage point a year between 1947 and 1964; the male teenager rate also increased two-tenths of a percentage point a year, and the average annual increase for female teenagers was three-tenths of a percentage point. The trend in nonwhite teenager rates was even more adverse. Bowen's paper also emphasizes the importance of taking into account decreases in labor force participation rates induced by high unemployment if a full picture of the extent of underutilization of labor is to be obtained.

Paul Jacobs focuses on the social and psychological aspects of unemployment and stresses the close interrelation between work and personality in our industrial society. Having spent a great deal of time living among the unemployed, his personal observations serve as eloquent testimony to the effects of unemployment on a person's sense of identity and self-respect. Jacobs argues strongly that to "treat" the unemployment malady successfully we must develop new sources of personal data and must make a much greater effort than at present to understand how the unemployed see themselves and their problems. Jacobs admits that this will require new kinds of personnel and new types of thinking. He suggests that the orientation of the Employment Service may have to be changed—to make it a service for the unemployed rather than a service for employers. It would thus become a guardian of the unemployed, just as the public health service guards us against diseases and as the county agent acts on behalf of the farmers.

The three papers in Part II are concerned with the role of aggregate demand in alleviating unemployment. Arthur Okun of the Council of Economic Advisers points out that while large enough infusions of aggregate demand will reduce unemployment to very low levels (as demonstrated by our experiences in World War II and the Korean War), the desirability of increasing aggregate demand depends on a whole set of considerations: labor market conditions, the balance of payments, foreign competition, composition of demand in product markets, price and wage decisions of large firms and unions, manpower policies and other policies that affect factor markets.

Having emphasized that labor market considerations are only one of a number of sets of considerations which determine how far an expansionary aggregate demand policy can prudently be pushed, Okun cites figures on occupational unemployment rates to show that the groups with the highest rates before the tax cut have experienced the most improvement and that there is no evidence of serious bottlenecks at the present time. The policy conclusion he derives from his analysis is that we ought to continue our efforts to increase aggregate demand.

Charles Killingsworth devotes most of his paper to a comparison of predictions made at the time of the tax cut with the behavior of unemployment rates since the tax cut. His main point is that the overall unemployment rate has not fallen to the much-talked-about 4 percent level. He also points out that unemployment rates among some groups—notably nonwhites and teenagers—have not shown the degree of improvement since the tax cut that was predicted. With regard to future policy, Killingsworth favors much larger spending on education and manpower policies and less reliance on tax cutting. He advocates a massive effort to employ the poor to eliminate poverty.

Much of the debate between the "structuralists" and the "inadequate demand" school has been inconclusive because the issues have not been stated clearly. One of the main purposes of Richard Musgrave's paper is to remedy this, and his diagram and accompanying exposition are a significant contribution to our understanding of this controversy. He argues that the fundamental issue is: How much of any given increase in aggregate demand is likely to be "frittered away" in price increases instead of expanding output and employment?

In reviewing our experience since the tax cut, Musgrave notes that during 1964 GNP rose by 38 billion and employment by 1.5 million while the price level was nearly stable. While some of this expansion would have occurred in any case, the tax cut clearly made a substantial contribution. The fact that the unemployment rate did not fall to 4 percent is interpreted by Musgrave not as evidence that the tax cut didn't work, but as evidence that a larger tax cut was probably needed.

Summary and Conclusions

In part III there are four papers on selective manpower policies. The first, by Garth Mangum of the President's Committee on Manpower, deals with "job creation." The second, by Curtis Aller, now Director of OMAT (Office of Manpower, Automation and Training), concentrates on the role of government-sponsored programs for training and retraining. A third paper by William Caples of the Inland Steel Company develops a concept of industry's role in job creation and training, and the final paper, by Alice Rivlin of the Brookings Institution, poses some critical issues in the development of vocational schools.

Mangum points out that jobs are created not by education, or training, or by employment services, but only by expenditures in either the public or the private sector. Thus "job creation" may result from: (1) persuading people to save less and to spend more, (2) providing people with more disposable income through measures such as tax reductions; (3) increasing transfer payments; or (4) increasing government spending. He argues that we must now increase jobs at the rate of 4½ percent per year just to keep the present level of unemployment from rising. To support this contention, he points out that the labor force is growing at about 1¾ percent each year and that the rate of increase in manpower productivity is over 2¾ percent annually. The total required 4½ percent increase in jobs each year is far beyond the recorded average of 3½ percent for the past two decades.

Mangum agrees with Bowen, Okun, and others that almost any employment goal could be achieved by expansion of aggregate demand, but at the price of inflation. However, granted the strong public support for price stability, specific manpower measures, including a deliberate policy of job creation, now offer the best hope of reducing unemployment to tolerable levels. He would rely primarily on expenditures by the government to provide new employment in the public sector to fulfill obvious needs such as slum rehabilitation, conservation, and a variety of public services. His paper concludes with a brief summary of present thinking and efforts of the Administration along these lines.

In his paper, Curtis Aller vigorously endorses the idea of "an active manpower policy" and applauds the passage of the MDTA as a major step forward in this area. In discussing the role of training and retraining, he makes the following points: (1) training programs enable us to move closer to full employment without triggering inflationary pressures; (2) they contribute to more efficient development and utilization of manpower; (3) they help to rehabilitate disadvantaged persons so that they can participate more effectively in the labor force; and (4) they are powerful forces in an overall strategy of change. In stressing this latter role, he cites as examples the contributions of youth training programs to the organization of community efforts to combat poverty, experimentation with new ideas and techniques of training and education, more effective cooperation between the Employment Service and local educational institutes, and new awareness of the need for comprehensive and well integrated approaches to human resource development. In short, the MDTA has injected new vigor and flexibility into old and well established institutions, and this may be of even greater significance than the training programs themselves. Government-sponsored training and retraining programs are, therefore, important vehicles of innovation.

In looking at the role of industry, William Caples points out that private enterprise creates jobs by making available to consumers new products and new services, and he feels that there are many opportunities for creative businessmen to meet a growing demand in such areas as appliance repair and a wide variety of domestic services. Private employers, moreover, may create new jobs for younger workers by encouraging more early retirement of some employees on a voluntary basis. And, industry can make it easier for people to find jobs by providing to schools and public agencies better information about job vacancies and longer-run employment opportunities. In his judgment, employers are frequently too rigid and unrealistic in establishing hiring standards. They seek high school graduates even though their education may not be related to the tasks they are required to perform. He argues that the employers themselves will benefit if they screen applicants on an individual basis instead of on the basis of arbitrary standards.

In the field of training, private employers may be the only organizations which possess the technical knowledge and physical equipment necessary to provide many types of training. And, in looking at the economy as a whole, Caples recognizes that the largest growth in employment will be in services, recreation, education, medical care, housing, urban renewal, public transportation and related activities mostly in the public and not-for-profit sectors. He predicts that the occupational distribution of industrial employment will continue to change rapidly toward employment of larger proportions of clerical, technical, professional and managerial personnel. He strongly advocates support by industry of all public education, including particularly the full range of broad vocational and technical education.

By striving for greater efficiency in producing to meet consumer demands and by supporting public efforts in training and education, industry has a vital role to play. As Caples puts it, "the schools need not only our financial support, they need our moral support, and they need our active cooperation."

In the final paper, Alice Rivlin examines the role of formal vocational schools and argues strongly for a reappraisal of the rationale, costs, and benefits of our rapidly growing system of vocational education. To her the fundamental questions are: (1) How much training should the labor force have? (2) Where should training for work occur? and (3) Who should bear the costs?

Many kinds of training can best be performed on the job. In particular, the work place is the most efficient location for training operatives of specialized and expensive machines, while clerical or general mechanical skills may be taught more economically in schools. Training efficiency, however, may not be the sole nor even the most important criterion in assessing the costs and benefits of vocational schools. They may be necessary to hold students in school who are either unwilling or unable to continue in general secondary education. In this case, the vocational schools may maximize their contribution by teaching multi-occupational skills, allowing students to sample different occupations, and providing remedial education for disadvantaged youngsters.

The most efficient location for training and the most appropriate means of financing training, however, are two separate questions. Public funds can be used to subsidize training-on-the-job as well as training in vocational schools. Private employers can underwrite some of the costs of public vocational education, and students can and do pay part of the cost of training through forgone earnings. This paper raises a number of searching questions. For example, what pattern of investment in vocational education would occur in the absence of public subsidy? And does vocational education reduce unemployment or does it simply spread the unemployment around?

Rivlin reaches the conclusion that one thing wrong with vocational education is that we know so little about it. In her judgment, we badly need more information about costs and benefits, experimentation with new methods of teaching and new curricula, new ways of combining classroom instruction and on-the-job training, and new ideas about financing occupational training.

All of the papers presented at the Symposium stimulated lively discussion, and there were sharp disagreements among the participants. More noteworthy, however, than the disagreements were the substantial areas of consensus which emerged from the Symposium.

First, no one disagreed with the fundamental premise of the Symposium—that unemployment in the United States today is an economic and social problem of such magnitude that it deserves not only intellectual attention but action. The overall unemployment rate has been above 4.3 percent since 1957, and there is a danger that this prolonged experience with high unemployment will weaken our determination to do better. The "interim goal" of a 4 percent unemployment rate may be replaced, de facto, with an even more conservative "interim-interim" goal.

Another point of agreement was that new jobs are created only when additional spending occurs. To reduce the unemployment rate to acceptable levels we will need ever larger increases in total spending. Education, retraining, and placement activities can smooth the expansion path by reducing the inflation danger—but except in so far as they themselves increase total spending, they will not lead to new job creation.

There was general agreement also on the necessity for expanding programs of training and retraining, although there were different ideas of how this could best be achieved. In a rapidly changing economy, continuous retraining, either on the job or in training institutions, is necessary to provide a mobile and flexible labor force. And, in some respects, training in itself provides employment. Thus money invested in training has some job creation consequences. The central issues are the sharing of responsibility for training between employers, individuals and government and the appropriate linkages between general education, vocational schooling, and training-on-the-job.

While it is important to look at unemployment in general, aggregative terms, it is essential to recognize that the labor force is far from homogeneous, that existing labor market institutions do not function "perfectly," and that selective policies have a number of key roles to perform—this was the final point of general consensus. Selective labor market policies, including education, are important not only because they improve the efficiency of the economy and weaken the inflation-barrier to expansion, but also because they promote a more equal sharing of the burdens of unemployment. Indeed, it is as a key part of the equal opportunity revolution of our time that selective labor market policies may make their greatest contribution.

Against this backdrop of consensus, there were a number of relatively minor disagreements and three major bones of contention.

There were considerable differences of opinion about *how much* of an expansion in aggregate demand was desirable. Part of the controversy here stemmed from different assessments of the outlook with regard to the price level (what is the slope of Musgrave's supply curve?) and part stemmed from differences in values (how important is it that we maintain a given degree of price stability?).

The second major disagreement centered on *how much* of an expansion in expenditures for selective manpower policies is warranted. Here some participants, most notably Killingsworth, argued that increases in aggregate demand ought to consist mainly of expenditure increases on these programs. Others felt that we face a real danger of indigestion, if we try to push these relatively new programs too fast. The latter group felt that it would be better to wait and learn more about how to spend this money most efficiently, before embarking on major program expansions.

A third area of disagreement, which grew out of the discussion rather than the papers, was over the appropriate role of minimum wage legislation. Some of the employers present argued that any increase in minimum wages would aggravate unemployment and destroy most efforts at "job creation." The union spokesmen vigorously denied this, and argued that higher minimum wages were necessary to provide a living wage. The economists present were somewhat reluctant to take a strong position on the issue, but they did argue that an increase in minimum wages ought not to be given "high priority" at this time.

Mr. Reynolds Nowell, of the Equitable Life Assurance Company, agreed with other businessmen that higher minimum wages would have an adverse effect on employment. He pointed out, however, that it would be neither possible nor wise to do away with minimum wage legislation. Instead, he proposed that employers who are willing to hire disadvantaged workers at the minimum wage should receive a wage subsidy to compensate for the difference between the wage paid and the value of the services rendered by such workers. This proposal sparked much interest, but led to no general consensus. Indeed, the question of advisability of tax incentives or public subsidies to private employers for training or job creation was one on which doubts and uncertainty prevailed.

Looking back on the Symposium from the standpoint of a more general question—what is the state of our knowledge of employment and manpower policy?—we note, first, that in recent years the nation has gained significant experience with a wide range of policies. The experience with the tax cut of 1964 has demonstrated the overall expansionary power of demand-stimulating measures of this kind, but it has also demonstrated that such a broad-brush approach cannot be expected to accomplish all of our management objectives. In an effort to upgrade the quality of our labor force and especially to improve the lot of disadvantaged groups, we have also made considerable use of selective manpower policies. It is true that, to some extent, we have pursued an "act first and evaluate later" approach. Given our relative lack of prior experience, this has been understandable—indeed essential.

By now, however, our arsenal of weapons has reached such dimensions that there is danger of their being used at cross-purposes. Action on one front may impede gains on another. Through MDTA, expanded vocational training, ARA, the War on Poverty, new aid to education, a "job-creation campaign," and a drive for further cuts in taxes, we are certainly pursuing active policies on many fronts. Whether they are consistent or effective is not always clear. The annual manpower reports of the President and the Secretary of Labor have been very useful in directing attention to our manpower and employment problems. Yet, they have not as yet provided an overall strategy for solving them.

In short, strategy-building is a top priority task today. Research on particular problems may help to develop manpower policy in pieces. But in order to build a strategy, the pieces must be fitted together. And this must be achieved largely by the development of unifying ideas. Traditionally, most people view employment and manpower policy as a derivative of other economic, social and political policies. Now, however, the persistence of chronic unemployment in a highly prosperous economy calls for building a well-integrated strategy, combining general economic measures and special manpower programs, which will have employment as its central concern. This will require imaginative thinking, reasoned judgment, and perceptive inquiry. The members of the Symposium were agreed, we think, that such a challenge must be met.

PART I

THE DIMENSIONS OF UNEMPLOYMENT

2

UNEMPLOYMENT IN THE UNITED STATES: QUANTITATIVE DIMENSIONS

William G. Bowen*
Princeton University

I. *Aggregate Dimensions*

Discussions of unemployment in this country have focused more and more in recent years on the characteristics of the unemployed—on unemployment rates among specific groups, such as Negroes, teenagers, persons with limited education, etc. This is a development to be commended and encouraged, from any number of standpoints, and later in this paper I shall make some comments on the incidence of unemployment, with special reference to nonwhites and teenagers. It would be most unfortunate, however, if this praiseworthy tendency to look at the problems of specific groups caused us to lose sight of the aggregative dimensions of unemployment in the United States.

As the *Manpower Report* indicates, for the year 1964 total unemployment averaged 3.9 million, or 5.2 percent of the civilian labor force.[1] This represents a significant improvement over performance in 1963, in that the average number unemployed is down almost 300,000 and the rate is half a percentage point lower. What deserves emphasis, however, is not the gain from 1963, but the fact that we are still a long way from what

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* I am greatly indebted to Mrs. Virginia Gebhardt for her help in preparing this paper, and to Professor Keith Hancock for his helpful comments on an initial draft. This work made use of computer facilities supported in part by National Science Foundation Grant NSF-GP579.

[1] *Report on Manpower Requirements, Resources, Utilization, and Training*, by the U.S. Department of Labor, March 1965, p. 8. [This report by the Labor Department is cited hereafter simply as *Manpower Report*, 1965.] Unless otherwise noted, all data given in this paper are taken from this source.

most people would regard as a tolerable level of unemployment. Pride in the duration of the current expansion should be tempered by an awareness of the painfully slow rate of improvement in our unemployment situation.

The economic and social costs of an unemployment rate as high as 5 percent hardly require documentation. The Council of Economic Advisers has estimated that the Gross National Product would have been 27 billion larger in 1964 had the unemployment rate been 4 percent,[2] and a 4 percent unemployment rate is a very conservative benchmark in the minds of many. The social costs of unemployment—including loss of self-respect, strains put on family relationships, and long-run effects on the aspirations and attitudes of children—are harder to quantify but at least as important.

If there were reason to think that an unemployment rate of 5 percent is an inevitable part of the economic order, an attitude of resigned acceptance could be understood. In fact, however, an unemployment rate of 5 percent is high when compared with the past performance of our own economy and when compared with the experience of other industrial countries. The unemployment record in this country since 1948 is depicted in Chart 2-1; the upward trend in the level of unemployment during the plateau-like periods between cyclical troughs in economic activity has been discussed so extensively in the *Manpower Report* and elsewhere that no further comment is needed here.

The comparison between recent experience in the United States and in other industrial countries is not made in the *Manpower Report* and therefore will be given a bit more attention in this paper, since such a comparison does contribute a useful perspective. Some relevant data are summarized in Table 2-1. One central conclusion stands out: excepting Canada,[3] all of the other industrial countries listed in this table

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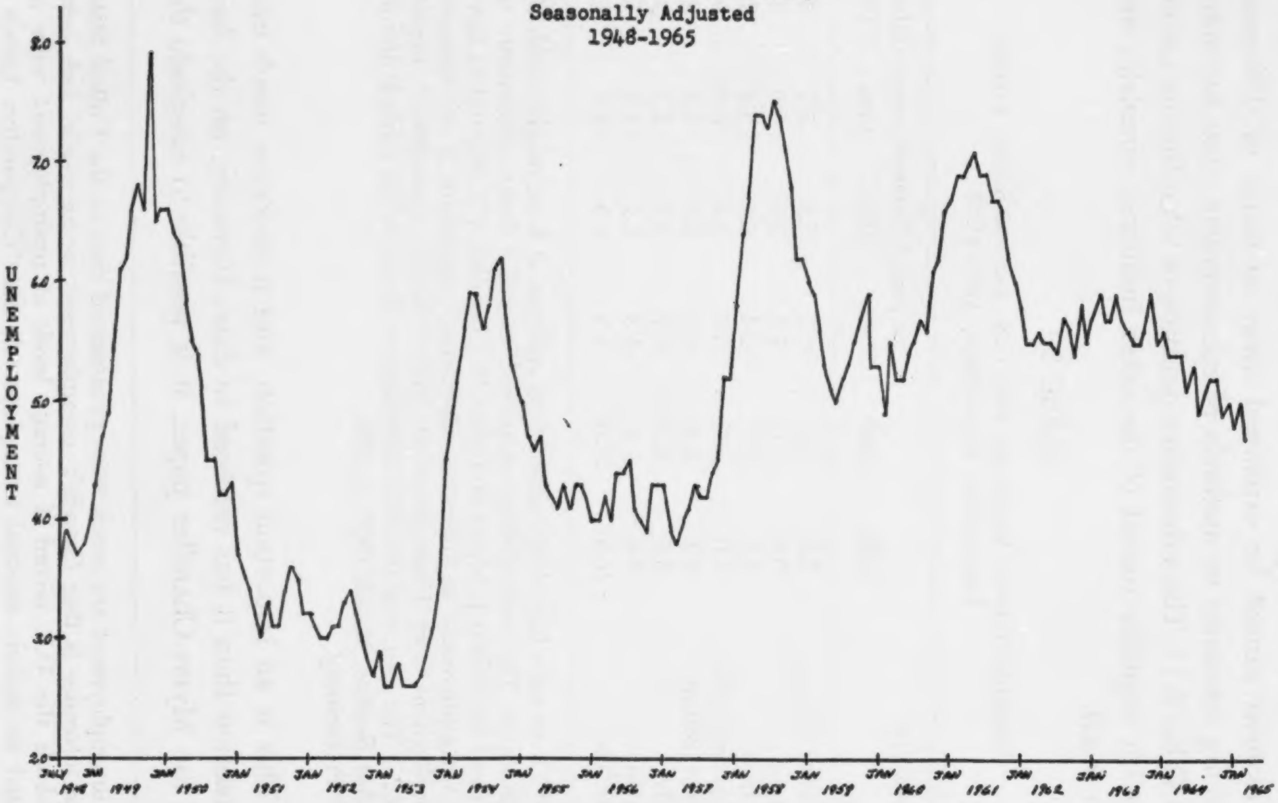
[2] *The Annual Report of the Council of Economic Advisers*, January 1965, p. 83.

[3] In the case of Canada, it has been observed that seasonal fluctuations

Chart 2-1
Monthly Unemployment Rates,
Seasonally Adjusted
1948-1965



Source: 1948-1963, Monthly Report on the Labor Force, Jan. 1964, p. 34.
1964-1965, Ibid, appropriate months.

have had *much* lower unemployment rates than the United States. And these pronounced differences in levels of unemployment cannot be explained away in terms of differences among countries in methods of measurement (see footnote *a* to Table 2-1). The substantive question of what factors account for the superior record of the other industrial countries must be faced.

TABLE 2-1

UNEMPLOYMENT RATES IN THE U.S. AND IN SEVEN OTHER INDUSTRIAL COUNTRIES, 1960-1964

Countries			*Adjusted Unemployment Rates*[a]			
	1959	*1960*	*1961*	*1962*	*1963*	*1964*
United States	5.5	5.6	6.7	5.6	5.7	5.2
Canada	6.0	7.0	7.2	5.9	5.5	4.7
France	2.8	2.7	2.4	2.5	3.1	2.5[b]
Germany (FR)	1.6	0.7	0.4	0.4	0.5	0.4
Great Britain	3.1	2.4	2.3	2.9	3.4	2.5
Italy	5.7	4.3	3.7	3.2	2.7	2.9[b]
Japan	1.9	1.4	1.3	1.1	1.1	1.0[b]
Sweden	N.A.	N.A.	1.5	1.5	1.7	1.6[b]

[a] These rates have been adjusted to conform at least roughly with U.S. definitions. The methodology employed to make these adjustments was devised by Robert J. Myers and John H. Chandler. ("Comparative Levels of Unemployment in Industrial Countries," Appendix A of *Measuring Employment and Unemployment* [the "Gordon Committee" Report], 1962.) The source of the 1959-1964 figures shown in the table is *Monthly Labor Review*, March 1965, p. 258.

[b] Preliminary.

This is an important question, and it deserves much more attention than it has received to date. However, on the basis of the Myers-Chandler paper, it is possible to conclude that

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in unemployment are much more pronounced than in the United States. The inference is that Canada's unemployment record would look better vis-à-vis the U.S. record if average levels of unemployment were adjusted to exclude seasonal unemployment. See "Comparative Levels of Unemployment in Industrial Countries," prepared by Robert J. Myers and John H. Chandler of the Bureau of Labor Statistics, and published as "Appendix A" of *Measuring Employment and Unemployment* [The Gordon Committee Report], 1962, p. 264.

some of the differences in unemployment rates are attributable to the following set of factors:

(1) Differences in the composition of the work force—the relatively large proportion of this country's labor force employed as wage and salary workers make our labor force more susceptible to overt unemployment, as we measure it, than the labor forces of most other industrial countries.[4]

(2) Greater ability of workers in the United States to withstand unemployment—relatively high wages in this country facilitate voluntary job changes and enable laid-off workers to remain unemployed rather than accept the first job available at possible sacrifice of occupational qualifications and future income.

(3) Legal and social factors in other countries which lead to relatively strong "job rights" for the worker—because of legal or social inhibitions, employers in many other countries are less likely to lay-off workers in response to a decline in the demand for their product, with the result that reductions in output per employee occur in lieu of increased unemployment.[5]

Another factor, perhaps more important than any of the above, has been the apparent tendency for the U.S. economy to operate at a lower level of aggregate demand (relative to supply) than the economies of most other industrial countries. Of course, aggregate demand and aggregate supply functions are not easily estimated, even for a single country. There is, however, one bit of available evidence which does support the proposition being advanced here. Table 2-2 shows average annual changes in consumer prices over the 1960-64 period for the same countries included in Table 2-1, and, as in the case of Table 2-1, the experience in the U.S. and Canada contrasts sharply with experience in other countries. The fact that the U.S. and Canada have been characterized by relatively high unemployment and relatively low rates of increase in consumer prices certainly suggests aggregate demand has been lower relative to aggregate supply in these two countries than in other industrial countries.

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[4] Britain is the main exception. In 1960, wage and salary workers comprised 84% of the U.S. labor force and 90% of the British labor force. (Myers and Chandler, *op.cit.*, p. 262.)

[5] Myers and Chandler, *op.cit.*, especially pp. 258-270.

TABLE 2-2

AVERAGE ANNUAL GROWTH RATE OF CONSUMER PRICE INDEX IN U.S. & IN SEVEN OTHER INDUSTRIAL COUNTRIES, 1960-1964[a]

	Average Annual Growth Rate
United States	1.2
Canada	1.4
France	4.0[b]
Germany (FR)	2.9[b]
Great Britain	3.0
Italy	5.0
Japan	6.6[c]
Sweden	3.2

[a] Calculated from UN, *Monthly Bulletin of Statistics*, March 1965, pp. 148-157. Calculated by computing annual growth rates and averaging.
[b] Country definition changed somewhat during the period. Prior to 1963 the France item was for Paris only; the Germany figure includes West Berlin for 1962, 1963.
[c] Only through 1963—figures for 1964 not yet available.

One interpretation is that in this country we have attached more importance to price stability and less importance to low unemployment than most other countries.[6] Another possible interpretation is that "natural" forces have produced more buoyant economic conditions in other countries, that therefore conscious policies of an expansionary sort have been more necessary in this country, and that a variety of primarily political-administrative reasons have inhibited the adoption of a sufficiently expansionary set of conscious policies in this country. Whatever the reasons, it appears that the United States has in effect "purchased" a relatively stable price level by tolerating a relatively high level of unemployment.[7]

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[6] See R. A. Gordon, "Full Employment as a Policy Goal," in Arthur M. Ross, ed., *Employment Policy and the Labor Market* (Berkeley and Los Angeles: University of California Press, 1965), pp. 25-55.

II. *The Incidence of Unemployment*

The *Manpower Report* is surely right in emphasizing the wide range of unemployment experience encompassed within the overall rate of 5 percent. The distribution of unemployment can, of course, be looked at from many standpoints, including occupational category, industry affiliation, geographical location, educational attainment, demographic characteristics, and color. In this paper, attention will be focused on the demographic and color dimensions.

The Age-Sex Profile and Its Significance for the Overall Unemployment Rate.

While the distribution of unemployment rates does, of course, change over time in response to a host of factors, there are also some rather persistent general patterns. The unemployment rate profile according to age-sex group is one such pattern, and when the features of this pattern are combined with knowledge of demographic trends, a useful perspective on our overall unemployment problem emerges.

Table 2-3 shows that in 1964 both male and female teenagers had much higher unemployment rates than older age groups. This is to be expected under most aggregate demand conditions, given the fact that teenagers have relatively little job experience, little seniority, and an above-average inclination to "shop around" for the right job. A second general characteristic of the age-sex profile is that females in the main child-bearing age-intervals (25-34 and 35-44) tend to have higher unemployment rates than males in the same age intervals, the reason being the above-average tendency for women in this age range to move in and out of the labor market. These features of the unemployment landscape take on special importance in a period when the teenage population is increasing rapidly and labor force participation rates for women (especially married women) are rising faster than participation rates for men. From a policy standpoint, the significance of these developments is that they are altering the distribution of the labor force in favor of those age-sex groups which tend to have relatively high unemployment rates—thus making it more difficult to achieve any given overall unemployment rate.

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[7] This argument assumes that a Phillips curve type of relationship is characteristic of most industrial countries and that the curves for individual countries are not greatly dissimilar. In the absence of evidence to the contrary, this seems a reasonable assumption.

TABLE 2-3

UNEMPLOYMENT RATES, BY AGE AND SEX, 1964[a]

Age-Sex Group	*Unemployment Rate*
Males:	
14-19	14.5
20-24	8.1
25-34	3.5
35-44	2.9
45-54	3.2
55-64	3.9
65+	4.0
Females:	
14-19	15.0
20-24	8.6
25-34	6.3
35-44	5.0
45-54	3.9
55-64	3.5
65+	3.4
Total 14+	5.2

[a] Source: *Manpower Report,* 1965, Tables A-1, A-13, A-15.

The quantitative importance of this phenomenon can be illustrated by an arithmetical exercise. Table 2-4 shows what the overall unemployment rate would have been in 1957 and is likely to be in future years *if the unemployment rates for* *each age-sex group were exactly the same as in 1964.* The overall unemployment rate in 1964 was 5.2 percent, and the differences between 5.2 percent and the "projected" overall rates for other years show the effects of the anticipated changes in

TABLE 2-4

PROJECTIONS OF OVERALL UNEMPLOYMENT RATES FOR 1957, 1964-1970, 1980—ON THE ASSUMPTION THAT CURRENT (1964) UNEMPLOYMENT RATES FOR SPECIFIC AGE-SEX GROUPS REMAIN CONSTANT[a]

Year	*Projected Overall Rate*	*Projected Overall Rate Minus Actual 1964 Rate*
1957	5.0	−0.2
1964 (Actual)	5.2	. . .
1965	5.3	+0.1
1966	5.3	+0.1
1967	5.3	+0.1
1968	5.4	+0.2
1969	5.4	+0.2
1970	5.4	+0.2
1980	5.5	+0.3

[a] The 1957 "projection" was obtained by applying the 1964 age-sex specific rates to the actual civilian labor force figures for 1957.

The steps taken in calculating the projected overall unemployment rates for 1965 on were as follows:

(1) Average annual percent changes in total labor force participation rates by age and sex were calculated from those given in the *Manpower Report*, Table E-2. The percent changes were then applied to the actual civilian participation rates for 1964 and estimated rates for each year were obtained.

(2) Estimates of total population for the years 1965-1970 were taken from *Current Population Reports*, Series P-25, #286, Table 4. (The number of 14 year olds was obtained by subtraction from Table 5.) To obtain civilian population figures we assumed that the armed forces would remain constant (by age/sex) from 1964-1970 (see *Current Population Reports* P-25, #286, p. 11, for a similar use of this assumption) and subtracted the number of military personnel in 1964 from the appropriate age/sex population figures.

(3) Estimated civilian labor force participation rates were applied to estimated civilian populations for each age-sex group to obtain the estimated civilian labor force figures.

(4) 1964 unemployment rates were applied to the estimated civilian labor force figures for each group in each year to estimate total unemployment for each group.

the *distribution* of the labor force among the age-sex groups on the overall unemployment rate. Thus, we see that the same set of age-sex specific unemployment rates which resulted in an overall rate of 5.2 percent in 1964 (and would have resulted in a 5.0 percent rate in 1957) would result in an overall rate of 5.3 percent in 1965, 5.4 percent in 1968 and 5.5 percent in 1980.

These "projected" rates are not meant to be taken too literally, since the age-sex profile of unemployment rates must be expected to vary in response to changes in the relative sizes of the different age-sex groups, as well as in response to changes in the level of aggregate demand and many other factors. Nevertheless, variations in the "projected" rates do serve as at least a rough measure of changes in the degree of difficulty to be anticipated in trying to keep the overall unemployment rate down to some target level.

Unemployment Among Nonwhites

A nonwhite American in the labor force is twice as likely to be unemployed as a white worker—in 1964 the white unemployment rate was 4.6 percent and the nonwhite unemployment rate was 9.8 percent. This stark fact emphasizes the close relation between labor market conditions and one of this country's most pressing general problems—providing equality of opportunity to persons of all races.

The Manpower Report contains a wealth of data comparing white and nonwhite unemployment rates, and there is no need to reproduce this set of figures here.[8] However, it may be helpful to add a few additional comments on trends in nonwhite unemployment.

In attempting to determine whether the unemployment experience of nonwhites has deteriorated relative to the experience of whites over the course of the postwar years, it is necessary to take account of the fact that white-nonwhite unemployment differentials are affected significantly by the overall level of unemployment, and that the overall level of unemployment has been higher in recent years than in the early part of the postwar period. One way to do this is to run a time series regression with the nonwhite unemployment rate (U_N) as the dependent variable and both the overall unemployment rate (U) and time (T) as independent variables.[9] The results of this type of analysis, covering the period 1948-1964, are as follows:[10]

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[8] See especially Table 9 on page 33 of the text and Tables A-11 and A-13 in the Statistical Appendix.

$$\text{(1)} \quad U_N = \underset{(0.11)}{1.73\,U} + \underset{(0.03)}{0.18\,T} - 1.83 \qquad (R^2 = .98).$$

The regression equation provides two significant bits of information. First, it indicates that variations in the overall unemployment rate exert a disproportionate (and highly significant) effect on the nonwhite unemployment rate, an increase of 1 percentage point in the overall unemployment rate being associated on the average with an increase of 1.7 percentage points in the nonwhite rate. Second, we see that there has been a marked tendency for U_N to increase over time. Allowing for the effects of variations in the overall unemployment rate, the nonwhite unemployment rate has increased, on the average, almost .2 of a percentage point a year. This is a most distressing finding, by any standard; and the future economic and social costs entailed are magnified when we recognize that teenage nonwhites have fared especially badly. (More on this in the next section.)

It would probably be unduly pessimistic, however, to assume that even if the overall unemployment rate is constant, the nonwhite unemployment rate is likely to continue to go up at a rate of .2 of a percentage point a year. The record of the past few years is more encouraging than the record for the entire period from 1947 through 1964. Chart 2-2 shows that in each of the last two years the actual nonwhite unemployment rate has been lower than the rate predicted by equation (1).

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[9] "T" is a dummy variable, taking on the values of 1 in 1948, 2 in 1949, etc.

[10] Standard errors are shown in parentheses under the regression coefficients. The "t" values for U and T are, respectively, 16.3 and 7.3, both easily significant at the 1 percent level.

A careful account of the factors responsible for variations over time in the nonwhite unemployment rate remains to be written. What is apparent at even a superficial level is that two major forces have been pulling in opposite directions. The lessening of job discrimination has undoubtedly increased the employability of nonwhites. On the other hand, the shift in the composition of the demand for labor toward jobs requiring a reasonably high level of educational attainment has worked against the nonwhites, who, despite significant progress in recent years, still rank well below the white population in this regard. Furthermore, the nonwhite population has increased more rapidly than the white population.

There is also another factor, less frequently mentioned, which has operated to increase the nonwhite unemployment rate—namely, the migration of nonwhites from rural to urban areas, which has occurred at an unprecedented pace over the last decade and a half.[11] This pattern of movement is significant from the standpoint of unemployment rates because unemployment rates in urban areas have tended to be higher than unemployment rates in the U.S. as a whole. (The differential was, however, much smaller in 1960 than in 1950.) The effect on the nonwhite unemployment rate can be seen by making a simple comparison based on the 1950 and 1960 decennial censuses (Table 2-5). We see that *for the U.S. as a whole*, the nonwhite unemployment rate increased from 176 percent of the white unemployment rate in 1950 to 185 percent in 1960. *For the urban U.S.*, the nonwhite unemployment rate as a percentage of the white unemployment rate declined slightly between 1950 and 1960, falling from 198 percent to 196 percent.

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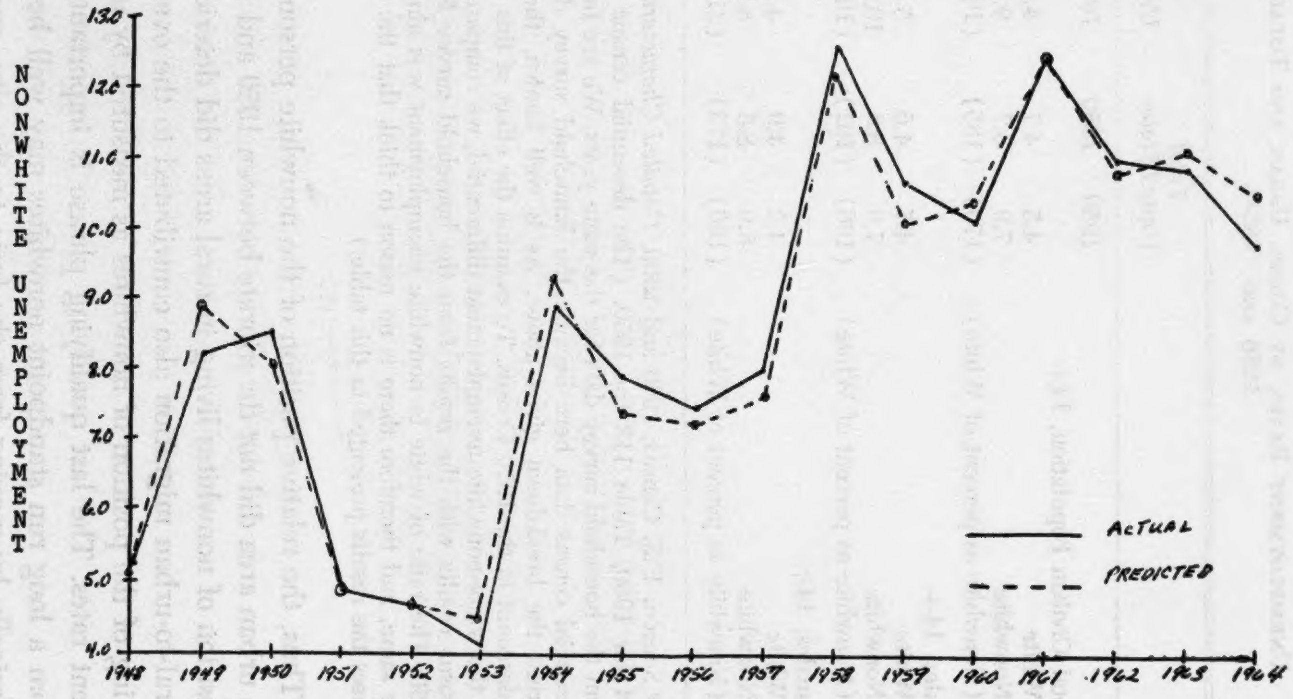
[11] Between the 1950 and 1960 Censuses, the percentage of all nonwhites in the working age population residing in urban areas increased from 65.1 to 73.9. The comparable change for the white population was from 66.2 to 70.4. (Source: U.S. Census, *Detailed Characteristics*, 1960 and 1950, Tables 194 and 118 respectively.)

Chart 2-2

Actual and Predicted[a] Nonwhite Unemployment Rates, 1948-1964



[a] "Predictions" based on regression equation:

$$\underset{}{U_N = \underset{(0.1)}{1.7U} + \underset{(0.03)}{0.18T} - 1.83} \qquad (R^2 = .98)$$

TABLE 2-5

UNEMPLOYMENT RATES, BY COLOR, URBAN AND TOTAL U.S., 1950 AND 1960[a]

	Total United States		*Urban United States*	
	1950	*1960*	*1950*	*1960*
Total Civilian Population, 14+				
White	4.5	4.7	4.9	4.6
Nonwhite	7.9	8.7	9.7	9.0
(Nonwhite as percent of White)	(176)	(185)	(198)	(196)
Males, 14+				
White	4.7	4.6	5.3	4.5
Nonwhite	7.8	8.8	10.2	9.3
(Nonwhite as percent of White)	(166)	(191)	(192)	(207)
Females, 14+				
White	4.2	4.9	4.2	4.8
Nonwhite	8.0	8.5	8.8	8.5
(Nonwhite as percent of White)	(190)	(173)	(210)	(177)

[a] Source: U.S. Census, 1950 and 1960, *Detailed Characteristics*, Table 194 for 1960, Table 118 for 1950. (The decennial census data differ from the household survey data for the same years. We are forced to use decennial census data here because the household survey data do not permit the breakdown given above. As is well known, there was an undercount in the 1950 Census. To examine the effect of this undercount on the white-nonwhite unemployment differential, we compared the 1950 Census results with the results from the household survey for April of 1950. The ratio of white to nonwhite unemployment was almost exactly the same, and therefore there is no reason to think that the undercount biases the results presented in this table.)

Thus, the relative position of the nonwhite person living in an urban area did *not* deteriorate between 1950 and 1960. The position of nonwhites living in rural areas did deteriorate, and rural-to-urban migration also contributed to the overall worsening of the position of nonwhites as measured by unemployment rates. The last qualifying phrase is important, because from a long run standpoint nonwhites may well benefit economically by moving from the farm to the city; and even in the short run we should recognize that the move from farm to city may mean only that underemployment is converted into unemployment. The fact that the effect of rural-to-urban migration is reflected in the picture of an increasing overall nonwhite unemployment rate makes the overall picture a bit less depressing than it would otherwise be, but only a bit.

The Teenager Employment Problem

Of all the groups whose labor market situation deserves intensive study, teenagers are from many standpoints the most important. The unemployment experience of teenagers since 1947 is summarized in Table 2-6. In 1964 unemployment averaged about 15 percent among both male and female teenagers and among both post-high-school-age teenagers and the younger group. Nonwhite male teenagers had an unemploy-

TABLE 2-6

TEENAGER UNEMPLOYMENT RATES,
1947-1964

	Males		*Total*	*Females*		*Total*
	14-17	*18-91*	*14-19*	*14-17*	*18-19*	*14-19*
1947	7.9	10.5	9.1	8.5	6.0	7.1
1948	7.9	8.7	8.3	8.4	6.5	7.3
1949	10.3	14.0	11.9	11.8	10.6	11.2
1950	10.2	11.5	11.0	11.8	9.1	10.4
1951	7.3	6.6	7.0	8.4	6.7	7.4
1952	8.3	6.8	7.6	7.8	6.3	7.0
1953	6.9	6.6	6.8	6.6	5.5	6.0
1954	10.3	12.1	11.2	10.3	10.1	10.0
1955	9.9	10.0	9.9	9.8	8.4	9.0
1956	9.4	9.8	8.6	10.9	9.0	9.9
1957	10.6	12.3	11.3	11.0	9.4	10.1
1958	13.3	17.8	15.2	13.4	12.9	13.1
1959	13.0	14.9	13.8	11.7	12.9	12.3
1960	13.2	15.0	14.0	12.8	13.0	12.9
1961	14.7	16.3	15.4	14.4	15.1	14.8
1962	12.9	13.8	13.3	12.9	13.5	13.2
1963	15.2	15.9	15.5	16.2	15.2	15.7
1964	14.5	14.3	14.5	14.9	15.1	15.0

Source: *Manpower Report*, Table A-12, p. 205.

ment rate of 23 percent and unemployment among nonwhite female teenagers averaged 31 percent.[12]

Even a casual perusal of Table 2-6 suggests that the labor market situation of teenagers has deteriorated markedly during the postwar period. To obtain a somewhat more precise idea of the degree of deterioration and to assess the relation between the overall unemployment rate and teenager unemployment rates, four time-series regressions were run, the dependent variables being:

$U_{M14\text{-}19}$ = unemployment rate for males 14-19
$U_{F14\text{-}19}$ = unemployment rate for females 14-19
$U_{NM14\text{-}19}$ = unemployment rate for nonwhite males 14-19
$U_{NF14\text{-}19}$ = unemployment rate for nonwhite females 14-19

In the case of the overall teenager regressions [(2) and (3)], there are 18 annual observations (1947-1964); in the case of the nonwhite teenager regressions [(4) and (5)], there are only 17 observations because the requisite data were not available for 1947. Results are as follows:[13]

$$U_{M14\text{-}19} = \underset{(0.2)}{1.8\,U} + \underset{(0.004)}{0.22\,T} + .74 \qquad (R^2 = .95) \tag{2}$$

$$U_{F14\text{-}19} = \underset{(0.2)}{1.5\,U} + \underset{(0.05)}{0.30\,T} + .71 \qquad (R^2 = .93) \tag{3}$$

$$U_{NM14\text{-}19} = \underset{(0.5)}{2.8\,U} + \underset{(0.11)}{0.81\,T} - 5.77 \qquad (R^2 = .93) \tag{4}$$

$$U_{NF14\text{-}19} = \underset{(0.5)}{2.4\,U} + \underset{(0.12)}{1.12\,T} - 3.67 \qquad (R^2 = .94) \tag{5}$$

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[12] For detailed data on teenager unemployment by age and color for all years from 1948-1964, see *Manpower Report*, Appendix Table A-13.

[13] Standard errors are given in parentheses under the regression coefficients. Six of the eight "t" values are over 6.0 and the other two are 5.7 and 4.6—all easily significant at the 1 percent level. Charts showing actual and predicted unemployment rates for each teenager group for each year since 1948 are included in the Appendix for the convenience of those interested in a more detailed picture of happenings over this period.

Looking first at the results without respect to color, it is plain that unemployment rates for both male and female teenagers are very sensitive to the overall unemployment rate and that, in addition, there has been a pronounced time trend working to raise their unemployment rates. These same conclusions hold in the case of nonwhite teenagers—only much more so! The regression coefficients for the overall unemployment variable indicate that an increase of 1 percentage point in the overall unemployment rate has been associated, on the average, with an increase of about 2½ percentage points in the unemployment rates for nonwhite teenagers. The coefficients of the time variable are even more striking—the unemployment rate for nonwhite male teenagers has, on the average, increased about .8 of a percentage point each year since 1948, after allowing for the effects of U on $U_{NM14-19}$; and the unemployment rate for nonwhite female teenagers has increased at an average rate of 1.1 percentage points per year.[14]

Unfortunately, high unemployment rates do not describe the full extent of the labor market difficulties faced by teenagers—or by any other group, for that matter. There is a growing body of evidence indicating that labor force participation rates are themselves a function of labor market conditions, that high unemployment discourages a substantial number of people from even seeking work (at least to the extent required to be counted as unemployed by the Census enumerator), and that the published unemployment figures understate the number of

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[14] Lest the reader think that *all* groups with high current levels of unemployment, and unemployment rates which are quite sensitive to the overall unemployment rate, also exhibit significant trend increases in their unemployment rates, the result of a time series regression for laborers (U_L) is reported here:

$$\underset{}{U_L} = \underset{(0.2)}{2.4\,U} + \underset{(0.0)}{0.0\,T} - 1.57 \qquad (R^2 = .96)$$

Note the coefficient of the time variable. Comments could be made concerning the significance of this result for the structural unemployment controversy, but this is not the place. (It can be reported, however, that a similar regression run for "operatives" also yielded a 0.0 coefficient for T.)

persons who would seek work if "full employment" conditions prevailed.[15]

Civilian labor force participation rates from 1947-1964 for male and female teenagers are summarized in Table 2-7. In the case of males, there has been a significant decrease in labor force participation over this interval. It is also evident that

TABLE 2-7

TEENAGER LABOR FORCE PARTICIPATION RATES,[a] 1947-1964

	Males			*Females*		
			Total			*Total*
	14-17	*18-19*	*14-19*	*14-17*	*18-19*	*14-19*
1947	39.4	75.1	50.1	20.6	52.3	31.6
1948	40.0	76.4	51.6	22.0	52.1	32.5
1949	39.2	75.4	50.5	21.5	53.0	32.5
1950	39.6	75.9	51.0	21.2	51.3	31.5
1951	39.8	75.0	49.9	21.8	52.5	32.0
1952	38.5	73.5	48.1	22.1	51.2	31.4
1953	37.0	73.4	47.2	20.7	50.7	30.4
1954	35.6	71.5	45.8	19.8	50.4	29.7
1955	36.2	72.2	46.0	19.9	50.9	29.9
1956	38.2	72.5	47.5	22.5	51.9	31.8
1957	36.1	71.7	45.5	21.2	51.4	30.5
1958	34.3	69.7	43.5	19.6	50.8	29.1
1959	34.4	70.6	44.0	20.8	48.9	29.3
1960	34.0	69.3	43.8	20.9	50.9	30.1
1961	31.9	66.8	41.7	20.2	51.0	29.8
1962	30.7	66.7	40.5	19.3	50.8	29.0
1963	30.7	68.0	40.4	19.1	50.5	28.3
1964	31.8	66.7	40.6	19.8	49.2	28.2

Source: Calculated from *Manpower Report*, Tables A-3 and A-7.

[a] Civilian labor force as a percent of the civilian non-institutional population.

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[15] See, for example, Alfred Tella, "The Relation of Labor Force to Employment," *Industrial and Labor Relations Review*, April 1964; Alfred Tella, "Age-Sex Sensitivity of Labor Force to Employment," *Industrial Relations*, February 1965; Thomas Dernberg and Kenneth Strand, "Cyclical Variation in Civilian Labor Force Participation," *The Review of Economics and Statistics*, November 1964; W. G. Bowen and T. A. Finegan, "Labor Force Participation and Unemployment," in Arthur M. Ross, ed., *Employment Policy and the Labor Market* (Berkeley and Los Angeles: University of California Press, 1965), pp. 115-161.

recessions have had an impact: 1954, 1958, and 1961 were business cycle troughs, and in each of these years there was a sharp drop in the labor force participation rate of male teenagers. In contrast with the males, the pattern of participation rates for female teenagers has been relatively stable.

It is difficult to draw strong inferences from the above figures because of the importance of school enrollment as an alternative to labor force involvement for teenagers. A clearer picture is obtained when we classify teenagers according to their enrollment status and examine separately the labor force participation rates of those enrolled in school and those not enrolled in school. Charts 2-3 and 2-4 permit this kind of comparison.

In general, participation rates among teenagers enrolled in school have tended to *increase* while participation rates among teenagers not enrolled in school have tended to *decrease*. Particularly noteworthy is the precipitous decline in participation rates among the younger (14-17) teenagers not enrolled in school. What accounts for these diverse trends? The pronounced change in the relative sizes of the enrolled-in-school and not-enrolled-in-school groups may well be an important part of the explanation. Tables 2-8 and 2-9 have been prepared in the hope that they will help us sort out the various interrelations among school enrollment and labor force status, and that they will also provide the basis for an assessment of the overall dimensions of the teenager problem.

Let us consider the male teenager group first. Table 2-8 shows that the proportion of male teenagers enrolled in school increased from about 64 percent in 1947 to about 83 percent in 1963. This sharp increase in the average propensity to remain in school may well have contributed to the increase in participation rates among teenagers enrolled in school (see Chart 2-3) by including in their number more young people who need part-time jobs in order to continue their education. At the same time, the shrinkage of the not-enrolled-in-school group to a mere 17 percent of all male teenagers may well have

Chart 2-3

Labor Force Participation Rates
Teenagers Enrolled in School
1947-1963

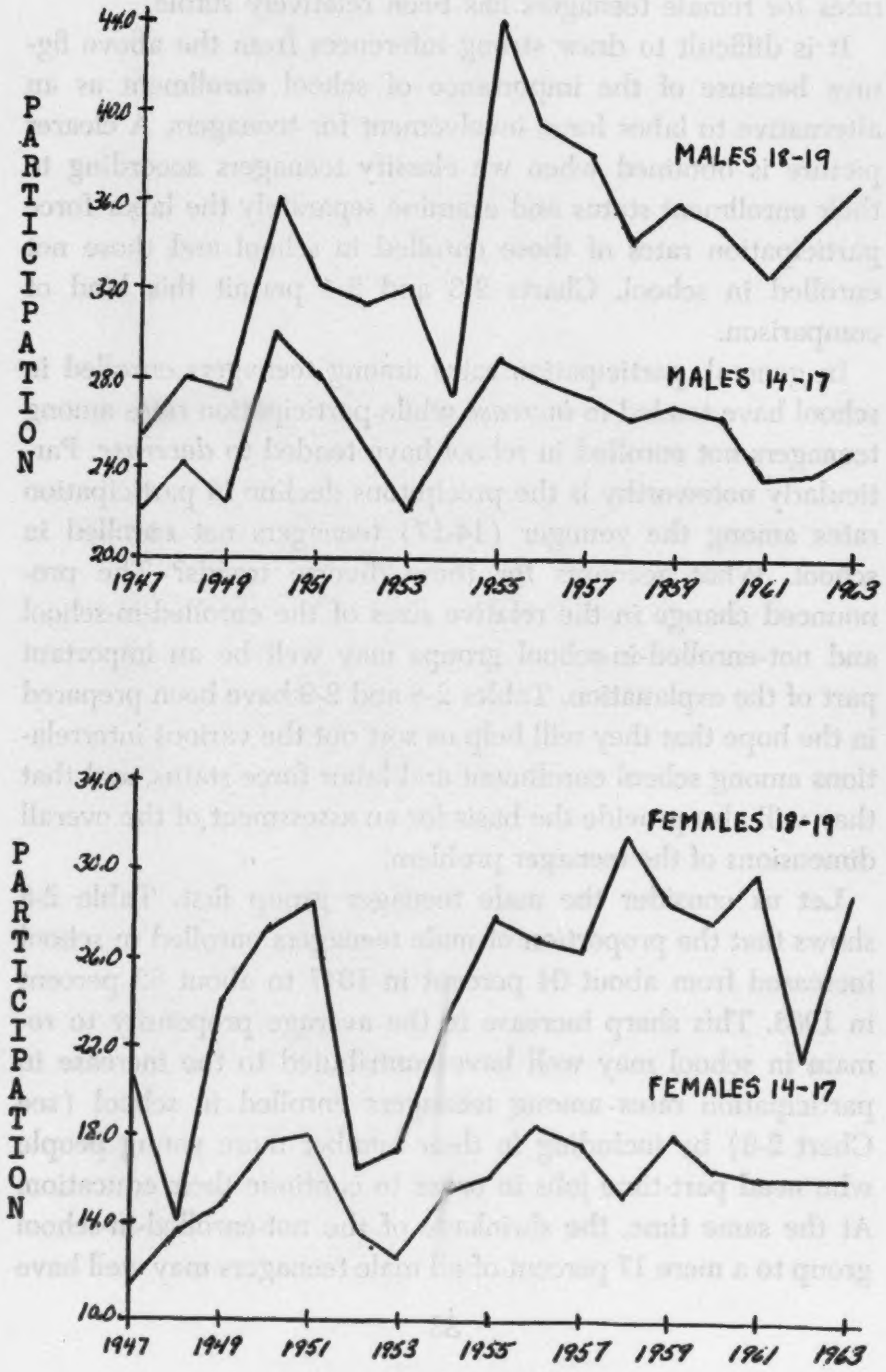


Chart 2-4
Labor Force Participation Rates
Teenagers Not Enrolled in School
1947-1963

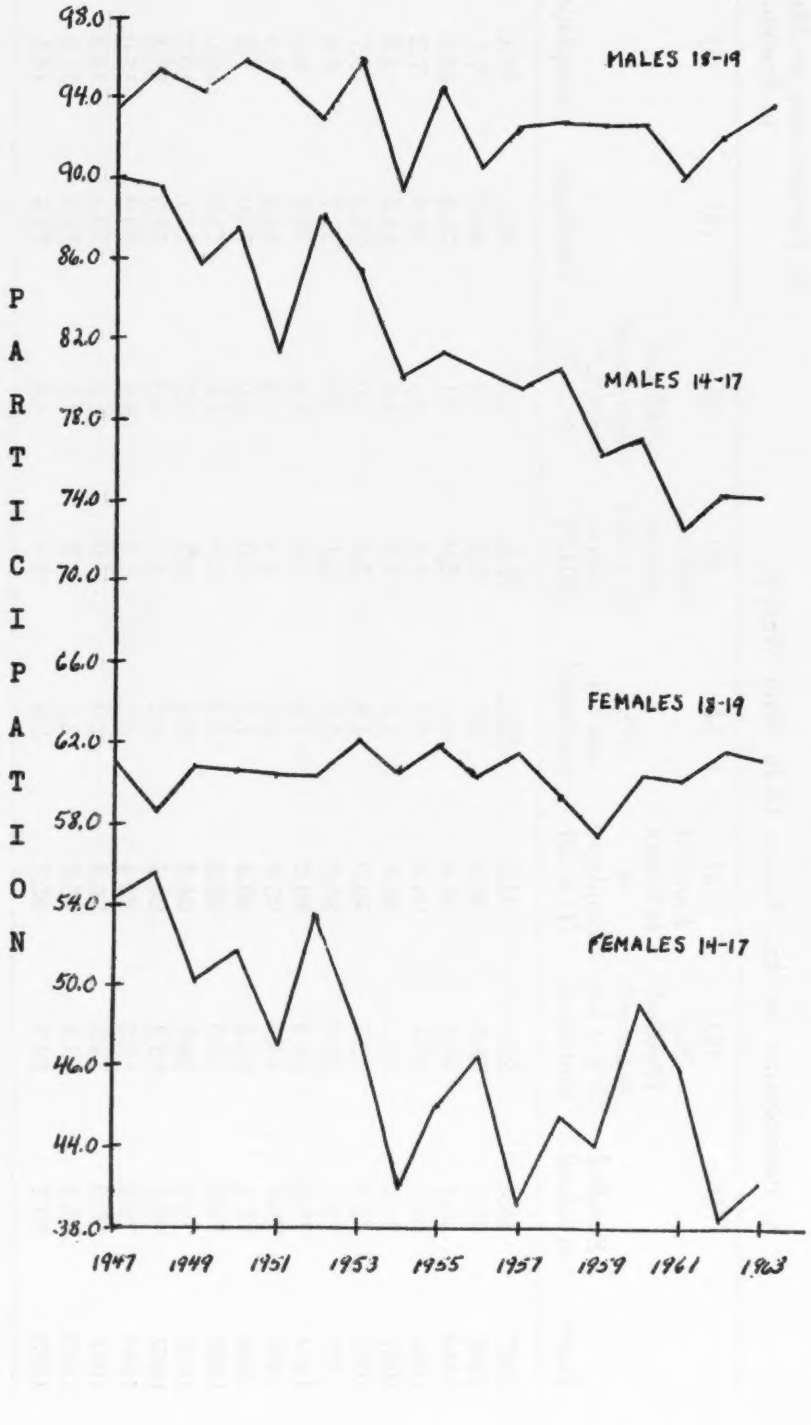


TABLE 2-8

Male Teenagers Classified by School Enrollment and Labor Force Status, 1947-1963

	A. Percentages of All Males 14-19 Who Were:[a]						B. Percentages of Males 14-19 Not Enrolled in School Who Were:			
Year[b]	(1) Enrolled in School	(2) Not Enrolled in School (NES), but Employed	(3) Enrolled in School or Employed (1) + (2)	(4) NES and Unemployed	(5) NES and Not in the Labor Force (NILF)	(6) NES and Unemployed or NILF (4) + (5)	(7) Employed	(8) Unemployed	(9) NILF	(10) Unemployed or NILF (8)+(9)
1947	64.4	29.8	94.2	N.A.	N.A.	5.8	83.8	N.A.	N.A.	16.2
1948	66.6	28.8	95.4	2.4	2.2	4.6	86.3	7.1	6.6	13.7
1949	66.7	26.2	92.9	4.1	2.9	7.1	78.8	12.4	8.8	21.2
1950	69.3	26.3	95.6	2.2	2.2	4.4	85.8	7.2	7.1	14.3
1951	70.4	25.2	95.6	1.5	2.9	4.4	85.2	4.9	9.9	14.8
1952	72.3	23.7	96.0	1.6	2.4	4.0	85.4	5.7	8.8	14.5
1953	73.1	23.0	96.2	1.7	2.1	3.8	85.7	6.4	7.8	14.2
1954	75.0	19.6	94.6	2.0	3.4	5.4	78.4	8.1	13.5	21.6
1955	75.8	19.8	95.6	2.0	2.4	4.4	81.9	8.3	9.8	18.1
1956	77.1	18.3	95.4	1.7	2.9	4.6	79.9	7.2	12.9	20.1
1957	78.6	16.6	95.2	2.3	2.4	4.8	77.8	10.9	11.3	22.2
1958	79.4	14.8	94.3	3.4	2.3	5.7	72.1	16.7	11.1	27.8
1959	79.1	15.2	94.2	3.2	2.5	5.8	72.5	15.4	12.1	27.5
1960	79.2	15.2	94.4	3.1	2.5	5.6	73.2	15.0	11.9	26.9
1961	80.0	14.2	94.2	2.9	3.0	5.8	70.9	14.3	14.8	29.1
1962	82.3	13.5	95.7	2.1	2.2	4.3	75.8	11.8	12.4	24.2
1963	83.2	12.5	95.7	2.4	1.9	4.3	74.4	14.1	11.5	25.6

Source: 1947-1958—*Current Population Reports*, Series P-57, selected issues.
1959-1963—*Special Labor Force Reports*, selected issues.

[a] Civilian noninstitutional population only.

[b] As of October.

TABLE 2-9

Female Teenagers, Classified by School Enrollment and Labor Force Status, 1947-1963

	A. Percentage of All Females 14-19 Who Were:						B. Percentage of Females 14-19 Not Enrolled in School Who Were:			
Year	(1) Enrolled in School	(2) Not Enrolled in School (NES), but Employed	(3) Enrolled in School or Employed (1) + (2)	(4) NES and Unemployed	(5) NES and Not in the Labor Force (NILF)	(6) NES and Unemployed or NILF (4) + (5)	(7) Employed	(8) Unemployed	(9) NILF	(10) Unemployed or NILF (8) + (9)
1947	58.4	23.0	81.4	N.A.	N.A.	18.6	55.3	N.A.	N.A.	44.7
1948	60.3	21.8	82.1	1.2	16.8	18.0	54.8	3.0	42.2	45.2
1949	59.7	20.6	80.3	2.6	17.2	19.8	51.0	6.4	42.6	49.0
1950	62.7	19.8	82.5	1.8	15.7	17.5	53.1	4.8	42.1	46.9
1951	64.2	18.9	83.1	1.5	15.5	17.0	52.7	4.1	43.2	47.3
1952	64.8	19.0	83.8	1.6	14.6	16.2	54.0	4.5	41.6	46.1
1953	65.9	18.5	84.4	1.3	14.4	15.7	54.1	3.7	42.1	45.8
1954	66.0	16.3	82.3	2.2	15.4	17.6	48.0	6.6	45.4	52.0
1955	65.1	18.3	83.4	1.5	15.0	16.5	52.4	4.4	43.2	47.6
1956	68.4	16.6	85.0	1.3	13.7	15.0	52.4	4.2	43.3	47.5
1957	69.4	15.7	85.1	1.3	13.6	14.9	51.4	4.1	44.5	48.6
1958	70.0	14.2	84.2	2.2	13.5	15.7	47.4	7.4	45.2	52.6
1959	70.9	13.4	84.3	2.1	13.6	15.7	46.2	7.2	46.6	53.8
1960	70.9	14.3	85.2	2.4	12.4	14.8	49.1	8.4	42.5	50.9
1961	71.2	13.9	85.1	2.5	12.4	14.9	48.3	8.7	43.0	51.7
1962	73.1	13.0	86.1	2.0	11.9	13.9	48.5	7.4	44.1	51.5
1963	74.4	11.9	86.3	2.6	11.2	13.8	46.3	10.1	43.6	53.7

See notes to Table 2-8.

been accompanied by a decline in the average quality of this group, which may in turn have contributed to a decreasing participation rate (see Chart 2-4).

If we view both school enrollment and employment as "acceptable" activities for teenagers, we see from col. (3) of Table 2-8 that the percentage of all male teenagers engaged in one or the other of these two activities has been remarkably stable (at around 95 percent) throughout the period under study here. Columns (4) and (5) indicate that among male teenagers neither enrolled in school nor employed, about as many have been classified as "not-in-the-labor-force" as "unemployed." Until we know more than we do now about the activities of these "not-in-the-labor-force" teenagers, we are probably well advised to lump them with the "not-enrolled-in-school-and-unemployed" in order to arrive at a measure of the overall number of male teenagers who were neither enrolled in school nor employed. In 1963 there were 392,000 male teenagers (4.3 percent of the total) in this combined category.[16]

Section "B" of Table 2-8 was included to reinforce a point made above: that over the years since 1947 the situation of those male teenagers who are not enrolled in school has deteriorated markedly. By 1963, over 25 percent of this group were either unemployed or not counted in the labor force at all.

The female teenager situation is depicted in Table 2-9. The format of the table is the same as Table 2-8, and few comments are necessary. Again, there is the sharp increase in the school enrollment percentage (col. [1]). This time, however, there is also a sharp drop in the "not-in-the-labor-force" group, and so column (6) reveals a decreasing tendency for teenage girls to

[16] Treating the not-enrolled-in-school-and-not-in-the-labor-force group as equivalent to the unemployed is a bit extreme in that some of these teenagers may be helping at home, they may be ill, or there may be some other good reason why they are both out of school and out of the labor force. However, a large number of these not-in-the-labor-force teenagers would in all likelihood be in the labor force if jobs were more plentiful or if they had been better prepared to seek and hold jobs—and it is for this reason that they have been added to the number of unemployed in cols. (6) and (10) of Tables 2-8 and 2-9.

be both out of school and not in the labor force. Even so, in 1963 there were 1,294,000 female teenagers who were neither enrolled in school nor employed (13.8 percent of the total). Of course, some of these girls were housewives. As a rough estimate (based on 1960 Census data), we can put the number of *unmarried* teenage girls who were neither in school nor employed at 650,000.

Thus, all told, there were over a million teenagers in 1963 who were not enrolled in school, who were not employed, and who (in the case of the girls) were unmarried. By any reckoning, this large a number of young people in this amorphous combination of categories constitutes a major economic and social problem. Policy prescription would be much easier if we knew more than we do at present about the characteristics of these teenagers and about the factors responsible for their situation.

* * * * *

It is perhaps worth reiterating the main themes of this paper, by way of conclusion. First of all, I have argued that the overall unemployment rate has been, and continues to be, intolerably high. It would be nothing short of tragic, in my judgment, if the focusing of attention on the particular problems of special groups were to obscure the overall dimensions of our problem. Unfortunately, arguments in favor of treating particularistic problems in a particularistic way have on occasion been used by others as an excuse for doing nothing about the general problem of unemployment. And it *is* a general problem as well as a set of specific problems. The strength of the relationship between the overall unemployment rate and the nonwhite and teenager unemployment rates certainly suggests that the labor market conditions facing these groups are heavily influenced by general labor market conditions.

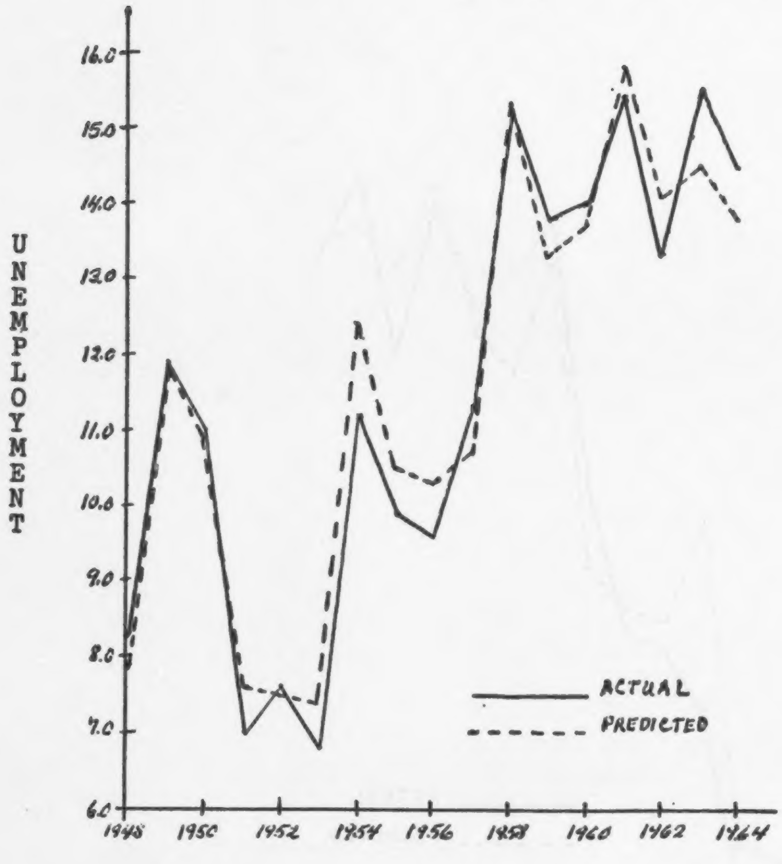
I would also argue, however, that it is not good enough to think solely in terms of general solutions. The extent of unemployment (and non-participation in the labor force) among certain groups which would remain if the overall unemployment rate were to fall to 4 percent—or even to 3 percent—is such as to require more finely honed policy instruments. If we need any additional stimulus to action along these lines, the adverse time trends reported above should provide it.

If you ask, but aren't you saying "on the one hand we need to view unemployment as a general problem" and "on the other hand we need to view it as a set of particularistic problems," I hasten to answer in the affirmative—and without any apologies to those who prefer more doctrinaire answers.

Table 2-A-1

Actual and Predicted[a] Unemployment Rates
1948-1964

All Male Teenagers



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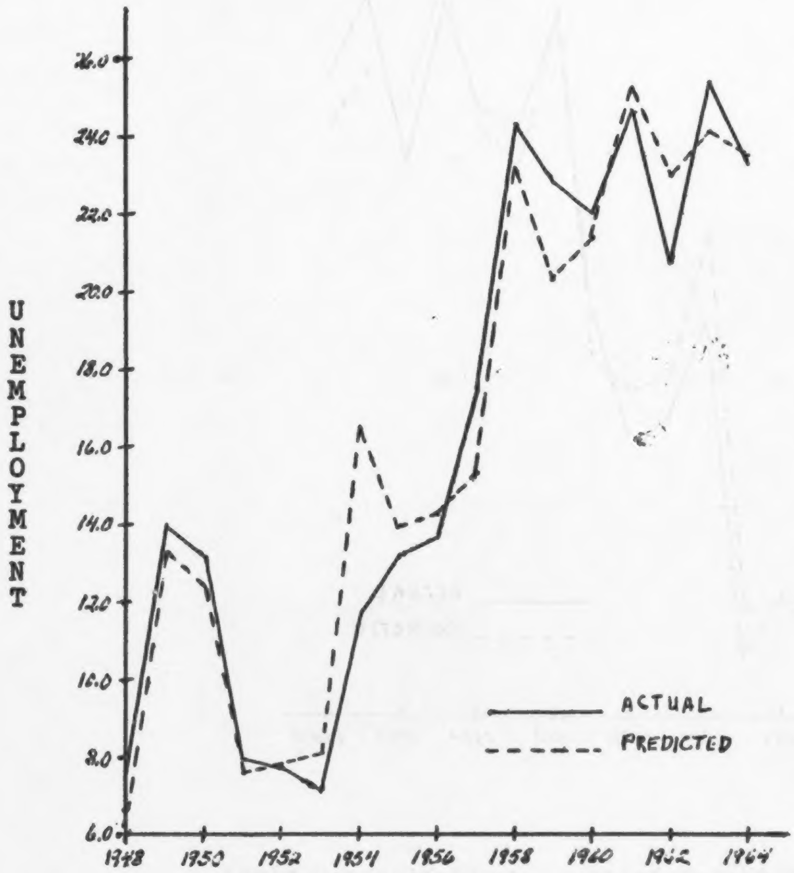
[a] "Predictions" based on regression equation:

$$U_{M14-19} = \underset{(0.2)}{1.8}\,U + \underset{(0.04)}{0.22}\,T + 0.74. \qquad (R^2 = .95)$$

Table 2-A-2

Actual and Predicted[a] Unemployment Rates
1948-1964

Nonwhite Male Teenagers



[a] "Predictions" based on regression equation:

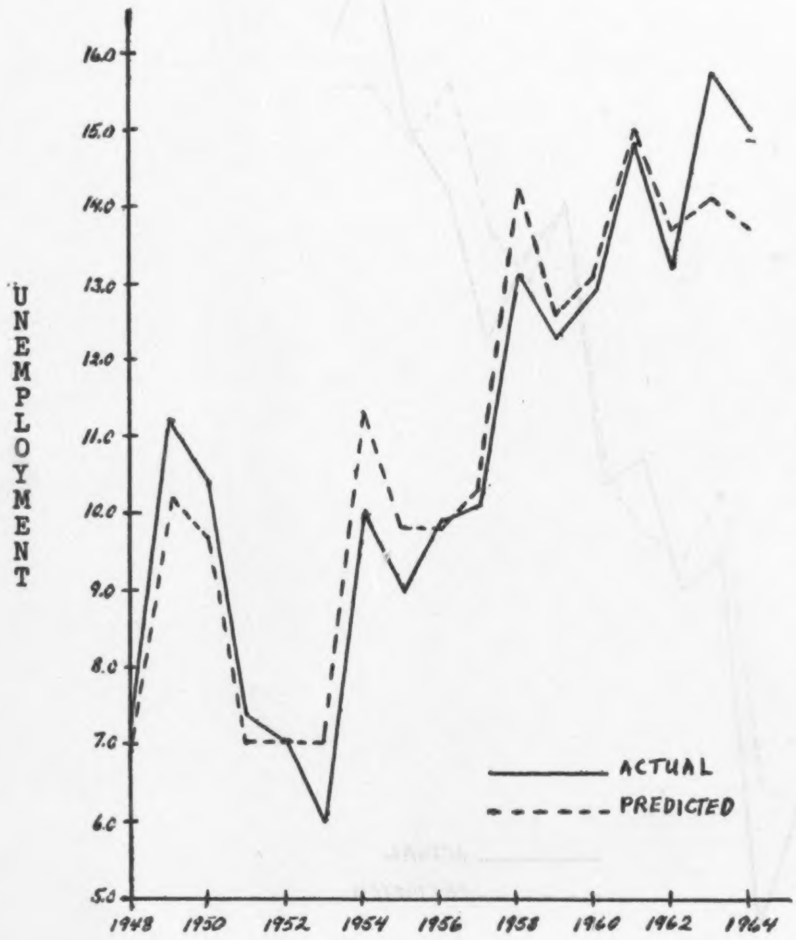
$$UN_{M14-19} = \underset{(0.4)}{2.8}\,U + \underset{(0.11)}{0.81}\,T - 5.77. \quad (R^2 = .93)$$

Table 2-A-3

Actual and Predicted[a/] Unemployment Rates

1948-1964

All Female Teenagers



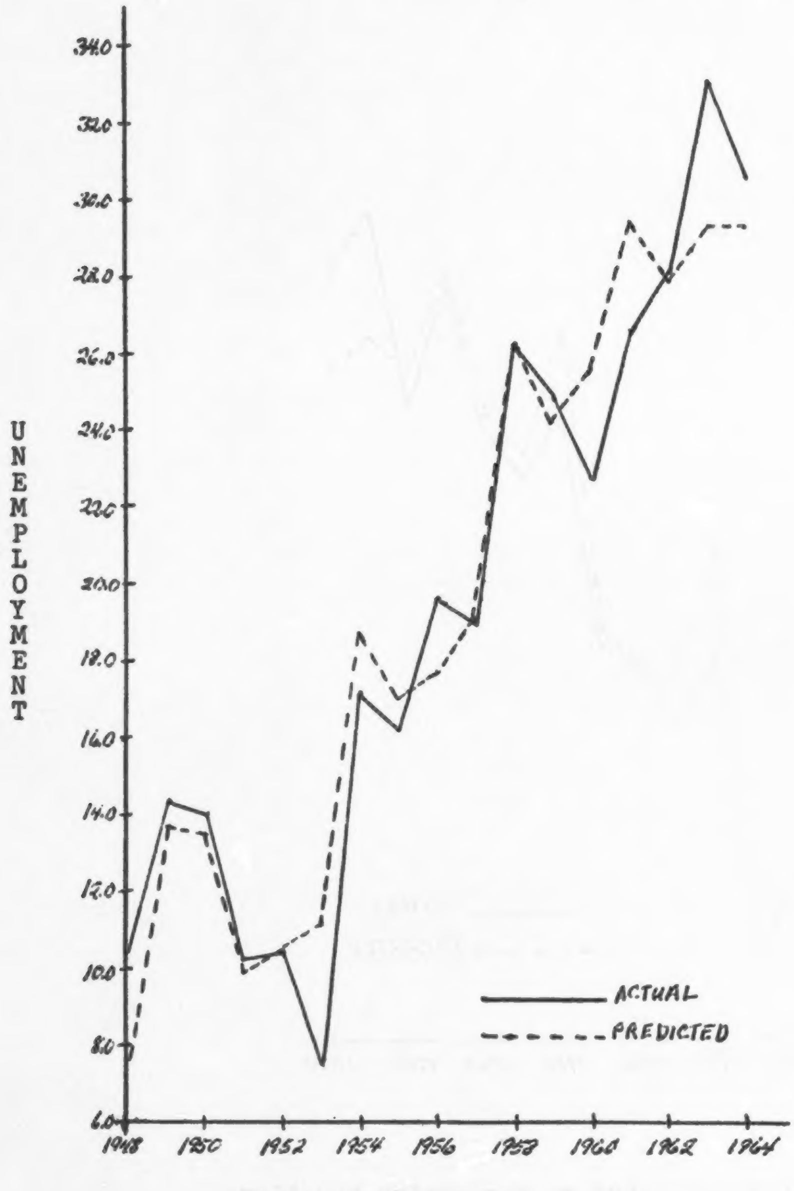
a/ "Predictions" based on regression equation:

$$U_{F14-19} = 1.5\,U + 0.30\,T + 0.71. \qquad (R^2 = .93)$$

Table 2-A-4

Actual and Predicted[a] Unemployment Rates
1948-1964

Nonwhite Female Teenagers



[a] "Predicted" based on regression equation:

$$UN_{F14-19} = \underset{(0.5)}{2.4}\,U + \underset{(0.12)}{1.15}\,T - 3.68. \qquad (R^2 = .94)$$

3

A VIEW FROM THE OTHER SIDE: UNEMPLOYMENT AS PART OF IDENTITY

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Normally, a censor's function is to delete what displeases him. But in 1956, a Soviet censor added a new dimension to censorship by changing, instead of excising, a word from a poem written by Boris Pasternak and published in the monthly *Novy Mir*.

Pasternak's original poem had in it two lines, "Sred' krugovrashchenya zemnogo/ rezhdeniy, skorbey i konchin," which translates, roughly, into "Amidst the earthly circuit of birth, suffering and death." But the censor, disturbed by Pasternak's view of Soviet life, substituted for "skorbey," meaning "suffering," a Russian word for work, "trudov."

No one familiar with the official system of Russian values could be surprised by such a substitution. In the Soviet Union, as in the United States and all other industrialized societies, work is considered to be an essential part of the "earthly circuit." But the alleged centrality of labor to man's existence is not limited to the exponents of industrialism; it is referred to in Biblical admonition, in Freud's middle class views and in the Labor Zionist ideals of A. D. Gordon, the Socialist intellectual for whom the redemption of the Jews depended on their personally doing physical labor.

Very early in Genesis, the Bible says of Adam, "The Lord God took the man and put him into the Garden of Eden to till it and keep it." Thus, even in the Paradise of Eden, man had to labor. And Freud once replied to the question of what a normal person should be able to do by answering, "Lieben und arbeiten," "to love and to work." The Soviet view can be found in Lenin's statement that: "The task that the Soviet government must set the people in all its scope is—learn to work."

The close inter-relationship that links work and occupation to status in our industrial society has been discussed at great length for many years. What has not been explored to the same extent are the effects of work and occupation as a component of personal identity, in the sense developed by Erik Erikson that: "The conscious feeling of having a personal identity is based on two simultaneous observations: the immediate perception of one's selfsameness and continuity in time; and the simultaneous perception of the fact that others recognize one's sameness and continuity."

But not all societies or cultures have connected work or occupation with status and so with personal identity. Aristotle was convinced that "the citizen must not lead the life of mechanics or tradesmen, for such a life is ignoble and inimical to virtue." To Aristotle virtue signified the responsible carry-out of political duties and continuous self-improvement.

And in Aztec civilization, to cite just one other example, work was also considered demeaning. Aztec status was related to being a warrior rather than one of Aristotle's ideal citizens. So, too, even today, in some non-industrialized societies, physical labor is considered the function of the women, part of their inferior status.

Great variations exist in the relative importance attached to work by different cultures and classes, variations which do not lend themselves easily to the type of statistical analysis of employment with which we are familiar. Thus, the question "And what's your field?" so often put to the stranger at an academic cocktail party would be meaningless to most of the unemployed workers who sit dispiritedly waiting for non-existent jobs in state employment offices. There instead the men and women are far more likely to ask "*Where* did you work last?"

I do not want, in this paper, to discuss the very important distinction which must be made between "work" as it is viewed by most of us and "work" as it appears to a man in a factory. To the intellectual, work is often a means of self-fulfillment; to an auto worker, it is more often only a means to earn money. Hannah Arendt in her book "The Human Condition" makes an interesting separation between physical labor of the kind done in a factory and the work produced in a study on the second floor of California Hall at the Berkeley campus. Although I don't agree completely with Miss Arendt's analysis, her contribution is one that needs much more exploration especially into why we feel so self-conscious about what we do that very often I hear university professors referring to their "shop." Whatever else California Hall may be, it's hardly a shop, at least of the kind that I've known in the past. But for the purposes of this paper, I shall continue to use the two words "work" and "labor" interchangeably although I shall be referring almost exclusively to what Miss Arendt calls "labor."

Current studies of unemployment tend to focus on the economic aspects of the problem. Additionally, in the research that we do carry out on the effects of unemployment upon personality, we are handicapped by the elusiveness of the material and the lack of refinement in our research instruments. Changes in human personality are not as easily detected as changes in occupational groups or in the gross national product. Thus, although we know that work, occupation and status may be important components of identity to the individuals while they are employed, we do not know how important the lack of these components may be to unemployed workers.

One part of any identity is that aspect of the personality which is presented to the world. Elsewhere, I have commented on Jack London's short story "South of the Slot," in which Fred Drummond, professor of sociology at the University of California at Berkeley, masquerades as Bill Tott, a common laborer, in order to study working-class attitudes. London describes Drummond as "very young to be a doctor of sociology, only twenty-seven and he looked younger. In appearance and atmosphere, he was a strapping college man, smooth-faced and easy mannered, clean and simple and wholesome. . . ." He also, says London, "never talked shop out of class and committee rooms, except later on when his books showered him with distasteful public notice and he yielded to the extent of reading occasional papers before certain literary and economic societies."

Most important, from the viewpoint of the link between the young professor's perception of himself and his need that others recognize him for what he is, London writes of Drummond as "a college man, in dress and carriage as like a pea to the type that of late years is being so generously turned out of our institutions of higher learning. His handshake was satisfyingly strong and stiff. His blue eyes were coldly blue and convincingly sincere. His voice, firm and masculine, clean and crisp of enunciation, was pleasant to the ear."

(A few months ago, I had occasion to reflect on how much importance people such as us give to a "satisfyingly strong and stiff handshake" as a projection of personal identity. I was on an Indian reservation in Arizona doing very rough and crude carpentry on a building that the tribe was constructing for a rodeo they were going to hold. My fellow workers were all Indians, most of them released every morning from the tribal jail to exchange one day's work for two days taken off their sentences. After a few days, they, and the other Indians on the reservation, grew accustomed to the sight of a white man working alongside them, and even began to include me in their bawdy jokes. But despite what I took to be some degree of acceptance, I became very conscious of the fact that very few of the Indians ever shook hands with me when we were introduced or greeted me afterwards with a hello or goodbye.

But then I noticed that the Indians didn't greet each other, either, or exchange handshakes, and by asking a few simple questions, I discovered that the firm handshake we prize and the greetings we expect are not part of this tribe's culture. When one of them joins a group of others, he just does so, and when he leaves, he simply departs without saying goodbye to anyone. As you might imagine, this knowledge provided a great relief for me, since I no longer felt compelled to call upon the Anti-Defamation League to set up a new project on improving Jewish-Indian relations.)

Still another, much more complicated, literary projection of the relationship between occupation and projected identity can be found in Shakespeare, to which, together with the Bible, all seekers for quotations repair periodically to replenish their supplies. In *Othello*, a passage occurs that obviously bears on this problem. Othello is just beginning to get convinced by Iago that Desdemona has been unfaithful to him, and the awful consequences of her alleged infidelity are beginning to weigh on his mind. He says:

> . . . . O, now for ever
> Farewell the tranquil mind! Farewell content!
> Farewell the plumed troop, and the big wars
> That makes ambition virtue! O, farewell
> Farewell the neighing steed and the shrill trump,
> The spirit-stirring drum, the ear-piercing fife,
> The royal banner and all quality,
> Pride, pomp and circumstance of glorious war!
> And O ye mortal engines whose wide throats
> The immortal Jove's dread clamour counterfeit;
> Farewell! Othello's occupation's gone!

Since Othello foolishly believes Iago's lies about Desdemona, the state of discontent and disquiet in which he finds himself is understandable. But to Othello, being cuckolded also means being deprived of his occupation, means he can no longer be a general. "Farewell the plumed troop and the big wars that make ambition virtue!" he cries, ending up with "Farewell, Othello's occupation's gone!"

Why should Othello feel that he is no longer a general because his beloved Desdemona has been unfaithful to him? His being a general isn't dependent upon her; he had been a general before the two of them even met. Is it because he foresees, in one dread moment of clarity, that he will kill her and thus end his life as he had known it? Or was there some connection in Shakespeare's mind between certain occupations and sexuality? It is also possible that Shakespeare's use of the word "occupation" was a bawdy pun of the kind so often found in his plays, for the word "occupy" once had a direct sexual connotation. But in view of Othello's tragic tone, it would be unlikely that Shakespeare would have tried to milk a laugh out of such a serious speech.

A more likely answer occurred from the experience of a famous movie director who had been blacklisted by the industry for alleged Communist affiliations. He had refused to testify as a friendly witness before the House Un-American Activities Committee and so had not worked for many months. Finally, though, he gave in and made his proper submissive appearance before the committee, beating his breast in guilt. Then he had gone back to his work.

He gave a number of explanations when he was asked why he had changed his mind and testified before the Committee. The one most relevant to this discussion was that he had become impotent when he was blacklisted, and had remained impotent the entire time he was unemployed. Later, I discovered that his response had been shared by a number of other blacklisted people. For them, their work and the status attached to it was associated with their masculinity. The sudden shock of unemployment evidently meant, among other things, a loss of that masculinity.

Superficially, unemployment seems to have precisely the opposite effect upon Negroes. In the San Francisco Negro teenage gang with which I am most familiar, it is a fairly common practice for the young men to stand on the streetcorner overtly stroking their genitals when a girl passes, while boasting to her loudly of both their physical attributes and their sexual prowess.

The explanation for this behavior has been given by Dr.

Unemployment as Part of Identity

Kenneth Clark in his chapter of a forthcoming book on Negro unemployment sponsored by the Ford Foundation Unemployment Study of the University of California at Berkeley, directed by Aaron Gordon and Arthur Ross. In his paper Dr. Clark writes, "Basically, the status of the Negro male makes it difficult for the Negro female to respect him in terms of all the things which this society considers important standards of the worth of the individual, material possessions, economic status, the ability to provide symbols of privilege, well-furnished homes in good neighborhoods, fashionable clothing, private schooling for their children. Such things are not available to unemployed or menial-class persons. If the Negro female is to respect the Negro male, she often has no choice but to respect him solely in terms of his person, his quality as an individual without the support of material success . . . . . the Negro female must then learn to judge the value of her male almost solely in terms of his prowess as a male."

Dr. Clark then goes on to point out that the Negro male is well aware that "he does not bring to the female the basis for respect which white males provide for their females." They resolve this conflict in a variety of ways, including, and here Dr. Clark might very well be talking of the gang in Hunters Point, by "exaggerated over-compensatory use of superficial symbols of masculinity that do not include economic or personal responsibility but do include a pattern of dalliance, taunting, hostility, irritability, and the adolescent preoccupation with the conquest of a number of females."

For any adolescent youth, white or Negro, the problem of unemployment creates a particularly acute crisis of identity. Erikson states that "it is primarily the inability to settle on an occupational identity which disturbs young people." Today, with an extremely high unemployment rate among youth, it is perfectly understandable why this crisis would be an almost overwhelming one for them.

In the absence of an occupation, young people must seek other means of establishing their identity. Recently, I talked with a 19-year-old Negro youth who was wearing an earring and a "kewpie," a large tuft of hair which sticks up from the head and is sometimes dyed or cut in equally conspicuous styles known as a "tam" or a "conk." The young man was discussing his failure to get a job as a gas station attendant, and when I asked him if he thought he hadn't gotten it because he was a Negro, he shook his head.

"No," he answered, "I think I didn't get it because of the earring."

"Well, why don't you get rid of the earring?" I asked.

"Because that earring is me, man, that shows who I am."

Let us assume for the moment that this young man discards his earring, cuts off his "kewpie," and patterns himself after a white middle-class youth. Then, what? Then, he might look like a young man referred to in a recent report of an upgrading project for Negro youth in Richmond, California. One of the project's successes was described as a "quiet, well-dressed young man. He seems to be one of our most referable young men. He was placed on a temporary and then a permanent bus boy job." Or perhaps he might assume the appearance of another young man, helped by the same project, who "is a good one. A sharp, neat young man with two years of junior college. He was placed easily on two temporary jobs and then placed on a permanent warehouseman job." But the kid with the earring believes such an exchange to be an unequal one!

There is no reason to limit this discussion to Negro unemployed youth, although the problem is more traumatic for them than for the whites, who, at least, have no sense of their racial inferiority. But the young whites' identity too has an empty space normally filled in our middle class society by occupation which they then fill in a variety of other ways. They become part of a gang or a clique within a gang and get a temporary identity support, a sense of who they are, from the group. The preoccupation of unemployed youth, male and female, with their hair is another way in which they establish their identity. What we take to be an abnormality, i.e., the

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young men combing their hair continually and the young women wearing their hair in huge mounds on top of their heads, is to them an effort to meet standards of personal worth their group requires in place of the papers presented at conferences that our group uses as a standard of esteem.

I have found such differences in viewpoint one of the most difficult barriers to overcome in living with and studying the unemployed. By our standards, a gang of juveniles racing in a stealing foray through a department store is engaging in manifestly anti-social behavior. But the gang members believe they are demonstrating their manhood and personal courage. What seems evil to us seems good to them, and therefore we cannot understand why they do not behave "properly," and they cannot understand why we keep asking them to do so.

Very often, too, I have found that what makes life difficult for me is not necessarily such an annoyance to the unemployed, and that I can only grasp the real tension of their lives through remembrance of things past. For example, not one of the shabby furnished rooms in which I've lived since working on this study has been equipped with a reading lamp. If I want to read at night in one of these rooms, I have to do so by the light of a bulb, almost always unshaded, hanging directly over the middle of the bed. But the lack of a reading lamp is not an important problem to most unemployed, uneducated workers, for their recreation is much more likely to be the TV set in the bar down the street or in the lobby of the hotel in which they live.

But, on the other side, it has been a very long time since I have had to really worry about money, from day to day. Once, in San Francisco, I did run out of money and had to walk about three miles to borrow some from a friend whose factory was near the district in which I was living. But the closest I came in that experience to what a really unemployed worker might face was that the receptionist, looking at my clothes, was extremely dubious about letting me go upstairs to my friend's fancy office. And so while I can report to you the difficulties encountered by the unemployed in their daily lives, I cannot communicate the precise depths of their feelings about them, for necessarily, I have a different set of values than they do.

So, too, I have learned that when I hear Mexican-Americans ask "tiempo Americano o tiempo Mexicano?" in making an appointment, they are referring to two different sets of values, which also may affect their view of unemployment. The traditions of the Mexican-American have remained more static than those of other immigrant groups, primarily because of the re-infusion of these values by the continual emigration of people from predominantly rural and isolated Mexican areas.

Thus, unemployment may represent a different type of crisis to the Mexican-American than to the achievement-oriented white Anglo-Saxon or the bifurcated Negro. The complex concept of identity is less dependent for the Mexican-American upon the kind of work he does and more related to who he is rather than what he is. The structure of kinship groups, the unique place religion holds in his life, the value of "being" rather than "doing," and a time orientation which places more emphasis on the present because it represents a reality while the future is unreal are components of Mexican-American identity which do not exist, in the same degree, for other groups.

Thus, older Mexican-Americans may tend to accept unemployment, underemployment or menial employment rather more passively than, say, Negroes, or even younger Mexican-Americans. But this ought not suggest that unemployment is less of a crisis to the Mexican-American than to any other group: it is, but of a different kind and begetting a different response. Waiting to hire out as a lemon picker in a state employment service one day, I listened to a group of Mexican-Americans discuss what they would do if they weren't hired: all of them were somber and worried about the possibility of not working, and none of them displayed any of the happy-go-lucky characteristics popularly expected in the stereotyped image of the Mexican-American held by most Anglos. But it is hard to conceive of a Mexican-American worker responding to the loss of work by impotence, for in Latin society, masculinity is linked far more to "machismo," the sense of male chauvinism, than it is connected to work. It is far more likely that the Mexican-American's main concern about being unemployed will be the loss of income rather than the loss of identity.

Another instance of a basic difference between "us" and "them" is in the view of government, at least as represented by an agency such as the employment service. This difference is one more of class than of ethnic group or color. Middle-class identity presumes a respect for authority, beginning with the authority exerted by the parent over the infant, extending into the authority of the teacher over the child, and ending with the authority of the supervisor over the worker. And all these authorities function under the rubric of the state's authority over the individual.

But what happens when there are no authority figures at home, or they are too inadequate for respect in our sense? What happens when, as in the case of so many Negroes, the school does not prepare the student for what he will confront, as a worker? What are the consequences of unemployment for the worker's image of the state as an institution of authority to which he can turn for help?

In the case of lower class, unskilled, unemployed workers, they begin from the premise that their problems of finding new employment will not be solved through any state institution. When I sit with them in the employment offices, which incidentally I have always heard called simply the "unemployment," their attitude towards it ranges from apathetic to indifferent. Their experiences with authority in the past have often been limited to contacts with welfare investigators and the police, both considered enemies. They have little or no expectation of finding employment from the agency and are much more dependent upon the informal grapevine which is one key characteristic of lowerclass society. At the casual labor offices, where jobs are handed out on a daily or hourly basis, there is a general understanding on the part of the unemployed and the officials that very little will be accomplished. In many cases, both groups just go through a ritual in which the unemployed worker makes an appearance at the office and gets his card stamped by a bored official, with both of them knowing that the only reason for the appearance is that without the stamp the worker is not eligible for receiving general assistance.

On the other hand, I have noticed that professional and white collar workers, with middle class ideologies, are much more likely, in the beginning at least, to believe that the employment service will be able to find work for them, even if it can't for unskilled workers.

"Look at those people sitting over there without ties!" I have heard such white collar workers say indignantly about the men and women waiting to be interviewed for unskilled jobs. "No wonder they can't get any work, considering the way they look."

What these white collar people are really saying is that they are different from and better than the unskilled workers whom they scorn. In talking, they present a view of themselves which is very revealing: "*we*" only lost our jobs because of some outside force over which we have no control, but "*they*" don't work because "they" don't want to work. If "they" really wanted jobs, "they" would dress and act as "we" do. Even while this white-collar group is unemployed, it still reflects, initially at least, the attitudes they held while working at steady jobs. The crisis for this group comes when their unemployment continues for such a long period of time that their old identity no longer sustains them.

I have been made aware, too, of how frightening the mere threat of unemployment can be to workers, especially unskilled ones. In one part of this study, I got a job as a dishwasher in a fairly large-sized restaurant in San Francisco. At that time, and I suspect today, too, dishwasher jobs were hard to get, and the union hall was filled with unemployed members looking for work. Since I felt I couldn't wait for a few weeks or even months before being sent out, I was forced to work out an arrangement with the union officers and a restaurant owner to create a job for me that did not otherwise exist. But since the workers in the kitchen, most of them Negro, did not know that I was there under special circumstances, their immediate reaction to me was one of fright: they knew that only a fixed number of jobs existed, and they were fearful that somehow I had been taken on to replace one of them.

Almost immediately, they went to the restaurant manager and demanded to know why I had been brought in and who was going to be fired. Fortunately, we had assumed such a contingency might arise, and had devised a cover story involving my having been hired to work in a new restaurant owned by the same man, but which had been held up for a few weeks. Reassured that I was there only on a temporary basis, they relaxed and quickly showed me how to clean the dishes which came off the machine still dirty with my apron instead of sending them back through the machine. I had ceased threatening their jobs, and perhaps equally importantly, they could stop worrying that their particular status was so low one of them might lose his job even though no over-all layoff was occurring.

Obviously, we are acutely conscious of the possibilities of conflict among workers about jobs. All of us concerned with unemployment are aware of the fact that the threat of joblessness may create dangerous tensions among workers, especially when those tensions are heightened by already existing racial and religious antagonisms. I have grown accustomed to hearing unemployed workers blame the "niggers," "kikes," "unions," or some other outside group for their troubles. I know, too, from my own experience as a union representative, how quickly union solidarity can crumble when an internal dispute breaks out over seniority. But I *was* surprised by the degree of hostility I encountered in that kitchen because I had misunderstood what a dishwasher's job can mean to him, and just how important it was to these men.

The intensity of feelings I have encountered about the fear of unemployment is common to all geographical, ethnic or skill groupings, with the exception of those workers for whom certain periods of unemployment are accepted as part of their normal lives. In response to the exigencies of their trades, they can tolerate these temporary lapses in employment, and even sometimes welcome them, for they have constructed an identity which focuses on an occupation without one specific physical locus such as a packinghouse, the cab of a railroad engine, or a shipyard.

But I have heard other workers discussing how surprised they were when their plant closed down, even though everyone else in the area knew it was going to happen, and even though the company and union told the workers it was going to happen. They still refused to believe in the reality of the event, almost as if to accept such an eventuality would somehow destroy their belief in their own value as unique individuals, with a work function that they perform uniquely.

This childlike, almost primitive, refusal to accept the fact of future unemployment may be linked to the concept of identity. To many workers, the job is much more than a paycheck: it is a very important part of their daily lives. In Oklahoma City, I talked with a woman who had been laid off from the Armour Co. plant after 15 years. She told me of her reactions, "Coz I hated it, don't think I didn't. You'd better believe it, I needed that paycheck awful bad. I'm supporting my whole family, my daughter and she's not quite right and my granddaughter since she's born 'cause my other daughter she left me with the kid. But I loved my job, too, and I loved the people I worked with and I loved being a butcher."

Today that woman, who was earning $6,500 a year as a "butcher" makes $40 to $45 per week, ironing clothes, babysitting, and running a church nursery. Financially, she has a bad time. "I count every penny when I go to the grocery store," and she has no time for anything but work. Her only recreation is "watchin' rasslin'," and she says, "I don't spend hardly ten cents on myself." But over and over again, she reiterated how much she missed the plant. "Some people were ashamed to say they were working in a packinghouse but not me. That's what I miss, the plant."

To that woman, the plant was a very important part of her life. "I loved being a butcher," she said, proud of that identity. Thus, since any loss of a sense of identity creates conflicts within the individual, it is easy to understand why workers would resist, as long as they can, accepting the idea that they are going to lose some sense of themselves when the plant closes.

To people for whom the only really important inquiry is not "What is your field?" but "Where do you work?" the threat of unemployment is a spectre that haunts them. My own real experiences with unemployment came during the depression. Then, unemployment seemed endemic to the society, and therefore did not threaten me with the kind of loss of belief in my own values that unemployment seems to bring today. During the depression, most of the unemployed had good reason to believe that they were the victims of a disease that affected the whole society; today, many of the unemployed act as if they are the ashamed victims of a venereal disease which they have contracted because of a failure on their part to observe the mores of society.

Perhaps if we continue this parallel a little further and try to view unemployment as a phenomenon in the nature of a disease, it might be helpful in creating a multifold policy to deal with it. Government has the responsibility of guarding the general conditions of our health, and preventing the outbreaks of diseases which might be spread through those functions of the society we all share, such as the water supply. Government must also assume the responsibility of attempting to keep unemployment in check. One might quarrel, as do some of us, with what government believes to be an acceptable rate of unemployment, but I think no one any longer questions the overall responsibility of government in dealing with the problem.

But, although we know a good deal more now than we have in the past about the consequences of unemployment to individuals, we still don't know enough. What we do now is parallel to the first actions of a doctor confronted with a patient in a hospital: treat the symptoms. If the patient is in pain, the doctor prescribes a painkiller; then, if an operation is required, the doctor dons his mask and gown. And that's what we do when someone becomes unemployed. We give them their unemployment insurance as the painkiller, and try to perform the operation of getting the unemployed worker another job.

But, unlike the doctor, we do not attempt to take the kind of detailed case history that is absolutely required before a long-term cure can be effected. And so we do not bring to the unemployed worker what proper medicine, correct medicine, brings to the sick: care for the whole person, based on knowledge of the person.

To act on this concept would mean a fundamental shift in our whole view of the unemployed. The data we accumulate would need to be far more individual than it is today, and we would need to shift from an overall view of unemployment to a much more personal one.

In a small town in upstate New York, I encountered two workers who had become unemployed simultaneously when the factory in which they both had been working closed down. They had quite similar backgrounds, were about the same age, and had worked in the plant for the same period of time. But one of them seemed not to have suffered any great harm to his personality from unemployment, while, by his own admission, the crisis had almost completely changed the other. He felt alone and isolated in the community, blamed everybody for the plant closing, was unable to find another job, and when he did find one wasn't able to keep it. As a result, he was filled with anger and frustration and obviously felt emasculated since his wife had been forced to return to her old job at the telephone company while he remained at home taking care of the housework.

The first man had responded quite differently. He, too, hadn't been able to find steady work, although he had ranged geographically and occupationally much farther than his mate in seeking work. But sitting in the beer joint with me, he seemed much happier and much more optimistic about his future. Later, I discovered that he was an accepted part of a vast family network of Italians and Poles which sustained him. Before being unemployed, he had met all the family standards, including producing the proper number of children, treating his wife with the proper mixture of deference and chauvinism that is the lower-class standard for Italian women, and actively engaging in a male world that included periodic hunting and fishing trips as well as poker and bowling sessions. Thus, although his job was important to him, he had other props to hold up his identity structure, and provided he wasn't unemployed for too long a period of time, the crisis of unemployment was not as severe for him as it was for the other man.

At present, we deal with both such unemployed men almost exclusively at a state employment service office sixty miles away from their home town, in an efficient, very impersonal interview situation. But living among the unemployed has shown me how little we can learn in this way about what may be their real problems in finding new employment. It is in the bars, nursing one bottle of beer through a long evening; standing alongside a dilapidated car; or sitting on the ground between the furrows, that I am learning a little about how the unemployed see their problems.

To do properly what I have been only experimenting with means we would have to develop new standards for classifying the problems of unemployment; standards which would include data we do not attempt to get now. In another paper, I have suggested how the lack of proper geographical data may handicap attempts to find new employment for workers living outside of large cities; now I want to suggest that personal data, of a very sophisticated character, be accumulated about the responses of individual workers to unemployment.

To provide such data about the unemployed worker would require a quite different approach than used today. It would mean better paid and differently trained personnel in the public employment services, for example, and probably the eventual disappearance of the private agencies. The orientation of the employment service would be primarily service to the worker, employed and unemployed, rather than service to the employer, as I think it is too often now. The employment service should function as one guardian of the worker, just as the public health service guards us against epidemic diseases, and as the county agent acts on behalf of the small farmer.

Clearly, such a concept of the employment service is a departure from the traditional notions we have had of its functioning. Until now, we have always assumed that given a reasonable amount of worker mobility, a reasonable amount of lessening in prejudice, and a reasonable amount of national growth, unemployment will cease to be a major problem. Some of the Cassandras of the Triple Revolution with whom I associate are convinced that even under the ideal conditions I have described, there will still be not enough jobs to employ the whole society. I don't know if they are correct in making this assumption, although I believe their position deserves more analysis and less abuse. But what does trouble me about their projections is that if they are right, I think we are unprepared for the loss of occupation as a component of identity. It is even possible that, although economically we may be able to substitute income for occupation, we may never be able to accept, psychologically, an identity without occupation.

But such questions as these trouble very few of the unemployed among whom I have been living. *They* are worried about whether the car in which they drive around looking for work will throw a rod on the freeway and leave them stranded, for *they* don't belong to the auto club on which *we* depend. *They* are worried because the mines are never going to reopen, and at 55 they are too old to find any work except picking ginseng roots, which are ultimately sold to Chinese workers in Hong Kong. But above all, they are worried because they believe they are considered failures by society.

They are right, too; underneath it all, we do think of them that way. We do still accept the theories of Social Darwinism, we do not fully realize that even the "fittest" may not survive, economically, without considerable assistance. And until we change our thinking, the unemployed *will* be failures, for there is a tendency in man to believe, and then become, what his fellow men say he is now.

PART II

THE AGGREGATE-DEMAND APPROACH

4

THE ROLE OF AGGREGATE DEMAND IN ALLEVIATING UNEMPLOYMENT

ARTHUR M. OKUN
Council of Economic Advisers

In our Annual Report this January, the Council of Economic Advisers said "the economy could operate at a 4% unemployment rate today without substantial strains on either labor supplies or plant capacity. . . . The interim target of a 4% unemployment rate is obtainable, given the required level of demand for goods and services." I should like to discuss today some of the analytical considerations in the choice of a 4% unemployment rate—rather than, say, 5 percent, or no particular rate at all—as the appropriate target for the guidance of current aggregative policies.

Aggregative policies are carried out through fiscal and monetary instruments that influence the level of total demand. Their direct impact is on product markets rather than labor markets and so they influence unemployment indirectly. But economists have long praised the "roundaboutness" in the production process and are neither surprised nor reluctant to rely on measures which are roundabout in the creation of jobs. There has been a strong and striking regularity in the relationship between total production and unemployment. A very simple-minded regression between output and unemployment that I first calculated 4 years ago has estimated unemployment rates consistently within a few tenths of a percentage point for the 1962-64 period. The continued good relationship between unemployment and production gains offers reassurance that the indirect route is reliable.

Aggregate Demand and Other Policies

In dealing with aggregative policies, I am considering only one type of public measure that affects unemployment. Some of our non-aggregative policies affect the human costs of unemployment. Unemployment insurance and the provision of other benefits to the jobless help to pool the risks and costs of unemployment among all members of society and to reduce the burden on the unfortunate individual who is directly affected. There are good reasons for viewing unemployment as a social rather than individual misfortune and for attempting to spread the costs widely, but there are limits on the extent to which society can compensate the affected individual. First, there is a need to leave incentives for the individual to find work, and this requires less than full compensation. Second, the extent of psychic compensation is limited by the fact that joblessness entails a loss of self-respect and an inevitable feeling of inadequacy which cannot be erased by the unemployment benefit check. Most fundamentally, even when the costs are distributed more satisfactorily they are not eliminated—the waste of labor resources still remains.

There are further policy measures—not always conscious or deliberate—which affect the quantitative supply of labor. For example, laws regulating hours of work, child labor, the age of retirement all influence participation in the labor force.

The matching of supplies and demands in our labor markets is influenced by still other Government policies such as those which spread information about available vacancies and which affect geographical and occupational mobility.

Finally and most important of all our non-aggregative policies are those affecting the quality and composition of our labor supply. The whole of public education has a tremendous influence on the skills of the labor force. In addition, adult education and vocational training and retraining are a major responsibility and interest of public policy much more fully recognized now than ever before.

The various policy instruments affecting unemployment have important interrelationships. But they are nonetheless distinct tools and require distinct decisions. Nonaggregative policies on unemployment require Federal outlays and as such become part of the budgetary process. There, they compete with the entire range of Federal programs; and their share of the Budget depends on their costs and benefits. Emphasizing and expanding manpower policies cannot settle the issue of whether fiscal and monetary policies should be expansionary, any more than a decision to turn on head lights determines whether to step on the gas or the brakes. Whatever we decide about appropriate levels of manpower policies, we must still face the puzzles of aggregative policy, and those are the puzzles that I have been asked to discuss.

The Limits of Aggregate Demand

Let me begin with a truism, or at least what ought to be a truism. Sufficient doses of aggregate demand will bring the unemployment rate considerably below 4.0 percent. During World War II, the unemployment rate fell below 1½ percent for 1944. And in the Korean War unemployment rates were around 3% for 3 straight years. It took a wartime experience to produce such results, because only a wartime period generates aggregate demand on such a grand scale.

In peacetime, we have never had a fiscal policy which would have created deficits at rates of resource-utilization even approaching those wartime levels. We simply do not pile on demand to buy butter the way we do to buy guns. But the wartime experiences show what demand can do when unleashed.

Now let me hasten to add the further truism that no one would seriously propose policies to obtain the inflationary heights achieved in these record wartime periods. Demand was clearly too high then; it was overworking and overheating the economy. We must set the speed limit on the economy below the capacity of the engine. It is the risk—or indeed the fact—of inflation, not any absolute limits to the potency of aggregate demand, that sets the restrictions on our unemployment target.

The Trade-off

The choice of an unemployment target therefore is a typical economic trade-off, which requires balancing the evil of inflation, on the one hand, with lost production and joblessness on the other. Every graduate student knows the formal solution for such a problem: crank in a preference function and an opportunity locus, and grind out an optimal solution. The preference function here obviously involves some weighing of the welfare costs of a little more danger of inflation versus the benefits of a little bit more production. We all recognize the important redistributive and allocative distorting effects that inflation can have at home, and in recent years we have become critically aware of its important costs to our international payments position. But these are painfully hard to quantify and to place in a clear trade-off position with the benefits of increasing production and employment.

Some years ago, Professor Alvin Hansen stated his preferences: he would stop expansionary policies at the point where an added one percent of production began to involve more than a one percent price increase. The symmetry of this rule has no particular merit, and the preferences are a matter with which one can disagree strongly. Nevertheless, Professor Hansen deserves our applause for laying his preferences on the line. A more candid airing of this welfare issue by the profession and public could be a great aid to the policy-maker.

The opportunity locus relevant to our choice is the price version of the Phillips Curve. We have a name for it, and we even have some estimates of it, but we still know pathetically little about it. We do pick up some clues over time. The record of the past half-dozen years shows consumer prices—as we measure them—rising a little more than 1 percent a year over a fairly wide range of levels of economic activity. A rate of unemployment of 5 percent did not produce a worse record for consumer prices than did a rate of 7 percent.

On the other hand, we all bear in mind the record of the mid-50's when we last enjoyed a 4 percent unemployment rate. Wholesale prices rose by 3 percent a year in 1956 and 1957, while the annual increase in employment costs per man-hour was 6 percent. Lagging slightly behind, consumer prices showed a 3 percent a year rise in 1957 and 1958. Nobody can consider that a satisfactory performance. But there are good reasons to hope and to believe that we would do a good deal better in another shot at the target.

Some Hopeful Signs

First, foreign competition should make an important difference in our price record at high employment. The closer ties of world commodity markets and greater substitution possibilities offered by imports today add to effective competitiveness in product markets, if at the same time they also accentuate the need for price stability.

Second, the composition of demand in product markets seems more favorable. There is good evidence that the effect on prices of excess demand for goods in one market is not fully offset by an equal excess supply in another. As Charles Schultze has lucidly explained, in the mid-50's there was genuine excess demand in selected capital goods industries, which generated inflationary tendencies in the economy in the absence of general excess demand. A better balance of demands and supplies in the various sectors of the economy could mean a much improved price performance with the same over-all rate of utilization. We have a favorable, more balanced distribution of operating rates by industry today, and there is no reason to believe they would have to become unbalanced as they move upward.

Third, we should expect better performance in the price and wage decisions of large firms and unions with market power. The self-defeating character of the cost-push spirals of the mid-1950's should be clear to all. And there is a further harsh lesson in the reaction of aggregative policies, which battled so hard for price stability for years thereafter at very high costs in incomes and employment. To suppose that something was learned in that experience is merely to express some regard for the intelligence of our business and labor leaders. The moral of that lesson is expressed in the Administration's guideposts for wages and prices. The guideposts have clearly heightened the Nation's awareness of the public interest in cost and price stability, and they have the potential to improve our record of price stability at high employment.

Fourth, we have stepped up and initiated manpower policies in the past few years to improve education, training, and job information. These recent developments may well have already improved our Phillips Curve and promise further benefits in the near future.

There are, I believe, several reasons to believe that a 4 percent unemployment rate would be consistent with a satisfactory degree of price stability in the mid-sixties. The Phillips Curve is not immutable. Indeed, the loose fits observed in the aggregate time-series data on price changes and unemployment rates are clear evidence that a variety of institutional and compositional changes shift the relationship around. I cannot expect all to share my judgment that we are not now on the edge of a sharp kink in the Curve. There were skeptics who thought they saw the kink at 5½ percent, and there were additional skeptics about 5 percent; they were wrong, but the 4 percent skeptics and I need further evidence to settle our difference of opinion.

Structural Deterioration Thesis

One important group of skeptics points to the changing structure of labor supply and of private demands for labor as an adverse influence on the Phillips Curve. The question of whether structural deterioration has occurred in labor markets is interesting, and it has fascinated the profession. It has led to many fine papers. It has helped us to understand the heterogeneity and the substitutability among various types of labor. It would be unfortunate, however, if this interest obscured the other critical factors determining the compatibility of full employment and price stability. Issues relating to the welfare costs of risking inflation, and to competitiveness, sectoral demands, and awareness of the public interest in pricing and wage-setting must all be explored to determine whether a given unemployment target makes sense today. A conservative need not embrace the structural deterioration thesis to justify a feeling that 4 percent is too ambitious as an unemployment target. Conversely one might conclude that structural unemployment has become an increasing problem and still argue for an unemployment rate of 4 percent or even lower.

But there can be little doubt that the structural deterioration thesis has been the most popular recent challenge to the further use of expansionary fiscal and monetary policies, and I feel obliged to take up the challenge.

The structure of labor markets is certainly changing, as it has been consistently throughout our history. Major changes in the structure of labor markets and in the composition of the labor force can make an important difference in our ability to reach a given unemployment target. I should think that throughout the twentieth century we have had some persistent forces tending to raise the unemployment rates associated with a given balance of product markets. For example, the self-employed have been a continually declining fraction of the labor force; since they are not subject to significant amounts of unemployment, their lesser importance should tend to raise unemployment rates. Furthermore, women have become an ever-increasing fraction of the labor force, from one-sixth of the labor force in 1890 to more than one-third today. The general shift from rural to urban pursuits should also be unfavorable to our employment record. As far as I can see, the only evident long-term force operating in the favorable direction has been increasing education. Since higher education groups have lower unemployment rates, the persistent trend toward increasing educational attainments helps to achieve lower over-all unemployment rates. Without the trend toward more education, we might well have seen an ever-worsening Phillips Curve dilemma as a secular trend. The education factor has been very much at work in recent years. The composition of the labor force by age-sex groups has moved somewhat unfavorably with a more rapid increase in groups which experience relatively high unemployment rates; meanwhile, however, as the Council pointed out in our 1965 Annual Report, the favorable shift in composition toward higher educational attainments has been quantitatively larger in its effect on the global unemployment rate.

Unemployment and Relative Supplies

Changes in the relative size of a given age, sex, or education group can affect that group's unemployment rate. Substitutability is obviously imperfect between highly educated and poorly educated workers, between young men and older men, between male and female employees. Thus, when one of the groups grows particularly rapidly, the structure of unemployment rates is likely to be affected while the labor market adapts to the change in relative supplies.

A good deal of attention has been recently paid—quite appropriately—to the influence of unemployment on our measured labor supplies, helping us to quantify the influence of changing job opportunities on participation rates. We also need to look at the other side of the coin to see how changing relative supplies affect relative unemployment rates. The relative supply effect must account for one recently observed phenomenon, namely the rising unemployment rates of young people with college degrees. The college diploma is still, of course, a badge of preferred status in the labor force, but less dramatically than formerly because of its increased prevalence. Reflecting this, college education people have experienced very little improvement in their unemployment rate in the past few years, while the global rate was improving considerably. Indeed, for young people, there was actually a notable increase in unemployment: white males under 25 years of age with college degrees had an unemployment rate of 5.0% in March 1962 but a rate of 8.0% in March 1964. Similarly, the unemployment rate for white females under 25 with college diplomas went up from 0.9% to 2.3%. If this occurs with increasing supplies of highly educated workers, it should be no surprise to find higher relative unemployment rates among teenagers and women today in view of their more rapid growth in the labor force.

The relative supply phenomenon is one good reason why a given over-all unemployment rate will mean changing unemployment rates for particular demographic or educational groups over time. A return to a 4.0% global unemployment rate would not return all group rates to where they were a decade ago. The unemployment rate among teenagers could not be expected to decline even to its 1956 level of 10.4%. The very high unemployment rate among teenagers is a matter of great social consequence. It argues strongly for careful and thorough exploration of promising manpower policies. But it is also an argument for—and not against—expansionary fiscal-monetary policies. The stability and stubbornness of the teenage rate of recent years reflect a stand-off between upward supply trends and downward demand pressures. Employment opportunities for teenagers have had to rise rapidly just to keep pace with the growth of the teenage labor force.

Teenage employment is highly sensitive to over-all economic conditions, as Professor Bowen's statistical analysis demonstrates and as the time-series data show. In 1962 and again in 1964, teenage employment increased by about a quarter of a million, which was proportionately a much larger increase than that of total employment in these years. In 1963, however, when the over-all employment picture temporarily did not improve, teenage jobs actually declined in number. Teenagers in the labor force are growing rapidly in number. Their job gains tend to be especially small in periods of sluggish over-all increases in employment and particularly large where over-all employment grows rapidly. This means that teenage unemployment is likely to shoot up unless the economy expands briskly. Teenagers are at the back of the hiring line. And it is, therefore, all the more important that the hiring line be shortened sufficiently to bring increasing job gains for them.

The same reasoning about the back of the hiring line also applies to the Negro worker. But since Negroes have not been getting on line at an unusually rapid rate, their unemployment rate has moved quite differently from that of teenagers. There has been a sufficient improvement in over-all employment opportunities to produce some real progress in nonwhite unemployment rates in the past few years. The nonwhite unemployment rate is approximately twice the white rate now, just as it was a year ago and two years ago. This means that it has been coming down twice as fast as the white unemployment rate. To be specific, in the first quarter of 1963 the nonwhite unemployment rate was 12.7 percent compared with a 5.8 percent white rate. The corresponding figures in the first quarter of 1964 were 11.3 percent and 5.5 percent. The first quarter of this year produced a nonwhite rate of 10.1 percent and a white rate of 4.8 percent. Continued performance along this path might mean that the Negro unemployment rate would be above 7 percent with an over-all unemployment rate of 4 percent (and a white rate a little above 3½ percent). The disparity is a distressing commentary on our social structure. It is an argument for cutting down the high Negro unemployment rates at their roots. But it is no reason to sacrifice a further possible decline of 2 percentage points in the Negro rate.

The Search for a Hard-Core

In short, the teenage worker and Negro worker pose a hard problem, but not a hard-core problem. Quite the contrary, their job opportunities are especially sensitive to over-all economic conditions. And if the structural deterioration thesis is intended to imply that there is a kink in the Phillips Curve just ahead, it must point to a hard-core of unemployed who will not fit the demands for labor that are generated by an expanding economy. It must present evidence that the unemployed are in a meaningful sense "unemployable." At a minimum it must show that some deterioration has occurred in the relative "employability" of those people still seeking jobs compared with those at work. Presumably employers are always sorting and choosing between those they hire and those whom they turn down in their attempts to fill vacancies. In some darwinian sense, the unemployed worker is classified as "inferior" to the man who gets a job. But if there is any indication that the difference between the job-holder and the job-seeker is more discrete and wider today than it was when unemployment rates were higher, that evidence has not been presented.

Let me offer a few pieces of relevant information that emerge when one looks at recent figures in a search for a hard-core of unemployed. Table 1 shows unemployment rates for the 11 recognized occupational categories for the first quarter of 1964 and the first quarter of 1965. The occupational groups are listed in order of their unemployment rate in the first quarter of last year. The third column of that table shows clearly that the groups with the highest unemployment rates have had largest percentage-point improvements in unemployment. Only the three categories at the top of the list have had improvements greater than that in the over-all rate. And the next four categories on the list have had improvements only slightly smaller than the over-all gain of 0.8 percentage points. The last four groups have had considerably smaller improvements (or even deterioration) in their unemployment.

I should consider the percentage-point changes decisive evidence that the occupational groups with high unemployment rates are not a hard-core. But if a stronger rebuke to the hard-core view is called for, the facts will deliver it. The rates at the top of the list have come down even more *relatively speaking* as a percentage of their original level, as shown in the fourth column of the table. The top three categories have

TABLE 4-1

CHANGES IN UNEMPLOYMENT RATES AND EMPLOYMENT, BY OCCUPATION, 1964 I to 1965 I

	Unemployment Rate (percent)		*Change*	
*Occupation**	*1964 I*	*1965 I*	*% points*	*% of rate*
Total	6.2	5.4	−0.8	−13
Nonfarm laborers	15.5	12.7	−2.8	−18
Farm laborers and foremen	10.5	8.2	−2.3	−22
Operatives	8.4	6.6	−1.8	−21
Service workers other than household	7.1	6.6	− .5	− 7
Craftsmen and foremen	6.1	5.5	− .6	−10
Private household workers	5.2	4.6	− .6	−12
Clerical workers	4.2	3.7	− .5	−12
Sales workers	3.9	4.1	+ .2	+ 5
Managers, officials, and proprietors	1.8	1.4	− .4	−22
Professional and technical	1.7	1.6	− .1	− 6
Farmers and farm managers	.5	.7	+ .2	+40

* Ranked by 1964-I unemployment rate; rates are *not* seasonally adjusted.
Source: Department of Labor.

improved by about ⅕ on their original unemployment rate. Only one of the eight categories farther down the list shows an improvement anywhere near that magnitude.

Table 2 tells the story about the duration of unemployment. Perhaps the long-term unemployed would seem to be the most likely candidates for a hard-core group. But, with the over-all improvement in unemployment in the past year, the diminution in unemployment has been progressively greater, the longer the category of duration, ranging from a 6 percent improvement for under 5 weeks to a 22 percent improvement for 27 weeks and over.

In an attempt to diagnose the true extent of hard-core unemployability, bottlenecks, and wage-price pressures that limit our unemployment target, we should investigate geographical areas that have attained particularly low unemployment rates.

TABLE 4-2

PERCENTAGE CHANGE IN NUMBER OF PERSONS UNEMPLOYED BY DURATION, 1964 I TO 1965 I

Duration of unemployment	*Percentage change in number unemployed*
Total	−10.7
Less than 5 weeks	− 5.8
5 to 14 weeks	− 9.9
15 to 26 weeks	−16.3
27 weeks and over	−22.2

Source: Department of Labor.

It is quite clear why the economy cannot match over-all the best performance among our various labor market areas. The average can never be as good as the best element in it. And the character of the demand for labor in certain cities, for example, Washington, D.C., is particularly favorable to achieving low unemployment. But the potentialities for our society may become most apparent by an analysis of local successes. And we do have some remarkable success stories to analyze in the records of particular major labor market areas over the past 4 years. For example, the Gary, Indiana major labor market area, which had a 10.1 percent unemployment rate in January 1961, was experiencing a 3.2 percent rate in January 1965. Similarly, Detroit's rate fell from 11.6 percent to 3.5 percent over the same period. Milwaukee, which had a fairly typical level of unemployment at 6.9 percent in January 1961, was down to 3.2 percent in January 1965. I do not claim to know the full explanation of these success stories. But I am suggesting that they deserve investigation to determine whether it takes an unusually favorable composition in the supply of labor to reach truly low unemployment rates.

Conclusion

A wide variety of policies and developments in the economy influence the ability of aggregate demand policies to do their job in improving resource utilization without endangering reasonable price stability. The freedom to pursue fuller prosperity and lower unemployment can be enhanced by improved competitiveness in product markets and labor markets, more enlightened self-interest in price and wage setting, and better structural and sectoral balances of supply and demand in product and labor markets.

It is essential that aggregative policies, manpower policies, and wage-price policies be recognized as complementary tools to achieve noninflationary full employment. Aggregative policies need the backing of manpower policies, not because there has been structural deterioration in labor markets but because we need structural improvement. And manpower policies need job creation through aggregate demand policies unless we are to have what my colleague Otto Eckstein has aptly called "a bitter harvest of trained and educated" people looking for jobs.

The economics profession needs to join forces to get this message across. Improved public understanding of Federal fiscal policy has had an enormous influence on our ability to alleviate unemployment recently. But the battle for full recognition of the potentialities and significance of the Budget remains to be won. In particular, the contribution of fiscal stimulus to unemployment is less obvious to the layman than is its benefit to incomes and profits. To the noneconomist, unemployment is likely to be seen as a problem of particular people in particular occupations in particular cities. Everybody knows that a penicillin shot can cure a sore throat even though it is not injected in the throat. The similar lesson that general economic remedies can flow through the body politic still needs to be taught. And the case for manpower policies needs to be made more effectively, by showing that Federal outlays in this area are a good sound investment of public resources. The case cannot be made by deprecating the role of expansionary aggregative policies.

We have no reason to retreat from our goals in conducting aggregate demand policies. Indeed, we have a fine record of progress in job creation and we should be moving ahead to keep improving it. There is no evidence of structural deterioration in labor markets or from any other source to suggest that we are about to encounter a sharp kink in the Phillips Curve. We must, of course, be aware of the risks. Our brakes must therefore be well-adjusted, but there is a green light ahead and our foot belongs on the accelerator.

5

UNEMPLOYMENT AFTER THE TAX CUT*

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THE performance of the economy since the great tax cut 14 months ago is now being interpreted in some quarters as conclusive proof that the surest and quickest way to remedy the excessive unemployment that remains is more tax-cutting. It is true that, month after month, we have set new records in production and employment, and that the overall unemployment rate is substantially lower than it was just before the tax cut. But there is danger that we will be so bedazzled by these accomplishments that we overlook one fact of basic importance for employment policy: the present and foreseeable effects of the tax cut on unemployment fall far short of the predictions of its chief advocates. Tax-cutting has had about half of the predicted effect on the overall unemployment rate. Tax-cutting has benefited most those groups in the labor force that were already well-off; the most disadvantaged groups have benefited least.

The fact is that the great tax cut has had its greatest impact on the soft edges of the unemployment problem. Its impact on hard-core unemployment has been relatively small.

In recent months there have been some rather startling efforts to rewrite history with regard to the positions that were taken and the predictions that were made in the debate that preceded the passage of the tax cut. If it were simply a question of who guessed right and who guessed wrong in 1963, the matter would hardly merit serious attention. But the question is what light the effects of the tax cut can shed on the validity of two sharply different diagnoses of the basic causes of excessive unemployment. That question should be answered by comparing the course of events with the predictions that were actually placed on the record in 1963.

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* Adapted from statement for Joint Hearing, Senate Subcommittee on Employment and Manpower and House Select Committee on Labor, Washington, April 30, 1965.

I

The President's Council of Economic Advisors was the leading advocate of the tax cut as the "centerpiece of policy" to combat excessive unemployment. The most definitive statement of the Council's views was presented to the Senate Subcommittee on Employment and Manpower on October 28, 1963. The Council thought well enough of this statement to reproduce most of it in the *Economic Report* for 1964. The statement included two key predictions about the effect of the tax cut on unemployment:[1]

A. The tax cut would thus increase demand to levels consistent with a 4-percent rate of unemployment. It would ease our most pressing unemployment problems.

B. Experience . . . clearly shows (1) that the unemployment rate will decline for every major category of workers and (2) that the sharpest declines will occur where the incidence of unemployment is the highest: among teenagers, the Negroes, the less-skilled, the blue-collar groups generally.

The tax cut was made effective in March, 1964. We can measure its effects to date by comparing figures for the first quarter of 1964 with those for the first quarter of 1965. The overall unemployment rate (seasonally adjusted) has gone down from 5.4 percent to 4.8 percent. Thus, we are presently less than half-way to the predicted 4-percent rate. As to the future, virtually all informed observers expect that the rate will be higher, not lower, later this year. The Council of Economic Advisors itself has recently predicted that the average

[1] See pp. 172-173 of the 1964 *Economic Report.*

for the year will be around 5 percent. If this new prediction is correct, then the tax cut will have had about one-third of the effect on the unemployment rate that was predicted by the Council.

Let us now consider how much the tax cut has done for the groups that are properly identified as the most disadvantaged: teenagers, Negroes, and the less-skilled. The teenage unemployment rate in the first quarter of 1965 was exactly the same as in the year-ago quarter—14.5 percent. Thus, the teenage-adult differential has widened. The Negro rate is down, but the white rate has declined more rapidly; so the Negro-white differential has also widened. The Negro rate was 205 percent of the white rate in the first quarter of 1964, and 210 percent of the white rate in January-March, 1965. The unemployment rates for the least-skilled group—laborers (farm and non-farm) and service workers—have also gone down, but by less for the group as a whole than the decline in the overall rate. Thus, the impact of the tax cut has been quite different from what Council predicted. The largest relative declines in unemployment rates have been enjoyed by the workers who were best-off before the tax cut: adult workers, white workers, more-skilled workers.

There is another important respect in which the effects of the tax cut have been inconsistent with the Council's theory of the cause of excessive unemployment. The Council has repeatedly insisted that there is no reason to expect any bottlenecks in labor supply as long as the overall unemployment rate is above 4 percent. Yet there are even now, with unemployment only a little below 5 percent, significant indications of serious shortages of certain kinds of skilled labor. The factory workweek is at the highest level since the end of World War II, and average overtime hours in manufacturing are at the highest levels recorded since the series began in 1956. Labor shortages are not solely responsible, but complaints of serious shortages of skilled manpower in such industries as machine tools, chemicals, steel, and certain construction specialties in some areas have been publicized in recent months. It is still true unfortunately, that we lack adequate information concerning the number and kinds of unfilled jobs in the country. However, the pilot surveys that have been conducted by the U.S. Department of Labor and others are turning up evidence of even greater shortages in certain occupations in local labor markets than many of us had expected.

II

Some of the mythmakers who are now busy rewriting history are not content with ignoring the erroneous predictions of the Council of Economic Advisors concerning the effects of the tax cut. These mythmakers are also attributing to the Council's critics views which they never held. Thus, it has been claimed repeatedly that the reduction of the unemployment rate to a little below 5 percent "vindicates" the Council and proves the fallacy of the view that the great tax cut would not reduce unemployment. Part of the distortion is already apparent; the rest is easily exposed. I will cite my own views as an example. In presentations to the Senate Subcommittee on Employment and Manpower in September and October, 1963, I took the following positions: The tax cut would reduce unemployment perhaps to a little below a 5 percent rate, and for that reason was one essential component of a full employment policy; but the tax cut could not achieve the 4 percent rate then being predicted by the Council and others, because it was likely to have its greatest effects on the unemployment rates of the groups that were already relatively well-off and its smallest effects on the rates of the most disadvantaged groups. Consequently, bottlenecks in the supply of the most highly trained manpower were likely to appear long before the *average* unemployment rate got as low as 4 percent. Therefore, I endorsed the tax cut but compared it to a one-legged ladder. The missing part of a complete full employment program, I argued, was adequate remedies for the structural aspects of unemployment. Let me emphasize that I cite my own views simply because they happen to appear in the same volume of manpower hearings that records the views of the Council of Economic Advisors. I lay no claim to a monopoly of insight. Many others, in government and out, disagreed with the Council's predictions in 1963 for reasons similar to mine.

Let me also emphasize that my disagreement was and is with ideas, not individuals. The members of the Council of Economic Advisors have been men of high professional standing. Many influential economists have agreed with their analysis of the unemployment problem, although there are some indications that a substantial part of the profession does not. All three men who were members of the Council in 1962 had been replaced by others by 1965. Yet in the 1965 *Economic Report*, the present Council reiterates essentially the same basic view of the unemployment problem that the Council had set forth in 1962. Thus the ideas have survived a complete turnover of individual members. What is more remarkable is that the ideas have also survived the repeated failure of events to conform with predictions based on the ideas. You will recall that the 1962 *Economic Report* predicted the achievement of a 4 percent unemployment rate by mid-1963. By mid-1963, when the unemployment rate was still 5.6 percent, the Council was predicting the achievement of the 4 percent rate as the result of the tax cut then proposed. In the latest *Economic Report*, the Council tacitly admits that the 1964 tax cut is not going to produce the 4 percent rate—but it insists that still more tax cutting could do the job! The Council's tenacious loyalty to the ideas that have repeatedly led to such erroneous predictions is surely one of the more remarkable examples of the triumph of faith over experience.

III

If the Council's errors in prediction had been academic exercises shrouded in the obscurity of scholarly journals, then there might be little justification for calling public attention to them. But the errors have had an important influence on the formation of basic economic policy in this nation. As is well-known, the Council's position has been (and still is) that *all* of the rise in the unemployment rate above 4 percent in the past eight years has been *solely* due to "fiscal drag," which in turn has created a chronic insufficiency of aggregate demand. Correction of the "fiscal drag" through tax-cutting will be sufficient *by itself* to achieve the "interim full employment target" of 4 percent, the Council has argued. Now it is true that the Council has never actively opposed such specific remedies for structural unemployment as manpower retraining; indeed, it has frequently permitted itself to indulge in faint praise for such undertakings. We have needed programs like retraining for many years, the Council has said, but this kind of program is no more urgent or necessary now than in earlier years; and such programs cannot really make a significant contribution to the reduction of unemployment before "fiscal drag" has been fully remedied. Hence, the essence of the Council's advice to the nation has been to wait until the 4 percent unemployment rate is achieved before putting major emphasis on remedies for unemployment other than tax-cutting. Since the 4 percent rate has proved to be a moving target, always just over the receding horizon, the time for really serious attention to specific programs to help the most disadvantaged job-seekers still lies somewhere in the future, according to this view.

In this era of consensus-seeking, when dissent is widely considered to be a little vulgar, it has become fashionable to say that of course we need *both* tax cuts and "structural" remedies such as retraining. This bland formula simply evades the real issue. Despite the widespread belief to the contrary, the issue has never really been "either-or." The issue has been "how much of each" and obviously the "some of both" formula is simply an evasion rather than an answer to the issue. In 1964, the answer clearly was, massive action on tax-cutting and tokenism on structural remedies. We cut Federal taxes in 1964 by an amount now estimated to be around 14 billion dollars per year. Also in 1964, 58,000 workers completed their training under the Manpower Development and Training Act; they were 1.5 percent of the average number of people unemployed during the year. Sweden is a country which is often compared with the United States in discussions of full employment policy. Sweden's policy goal is to provide retraining for about *half* of her unemployed workers each year. Of course, Sweden has a much lower unemployment rate than we do. But even if you put the comparison on the basis of the percentage of the total labor force that is involved, we would have to retrain about 750,000 workers per year to equal Sweden's effort.

IV

Thus the view that excessive unemployment in recent years has been caused exclusively by an insufficiency of aggregate demand has had a powerful influence on the shaping of employment policy. In addition, the comforting assurance that the groups which are presently most disadvantaged in the labor market—teenagers, Negroes and the low-skilled—would benefit disproportionately from the stimulation of aggregate demand has helped to divert attention from their real sources of disadvantage. I will illustrate the point by reference to some of the findings of a study of Negro unemployment that I have under way.

My study grows out of the conviction that the plight of Negroes is the most serious aspect of our present unemployment problem. The labor market position of Negroes relative to whites has been steadily worsening since the early postwar years. In 1947-48, the reported Negro unemployment rate was about 60 percent higher than the white rate; by the mid-fifties, it had risen to more than double the white rate and has maintained that relationship during the long upward drift in white rates. Moreover, there is persuasive evidence of a much greater growth of hidden unemployment among Negroes than among whites. I have made a rather detailed analysis of Negro labor force participation rates by age and education compared to white rates and have made estimates of the greater prevalence of hidden unemployment among Negroes. My finding is that Negro unemployment has been understated by at least 50 percent in recent years, and that the Negro rate is actually about three times the white rate instead of being twice as high as the official figures show.

In seeking the sources of this growth of disadvantage among Negroes, I have made a number of comparisons of Negro and white patterns of unemployment. The purpose has been to assess the reasonableness of the widely held assumption that the chief sources of Negro disadvantage are general slack in the labor market, racial discrimination and too few years of schooling, usually in that order. The striking differences between Negro and white unemployment patterns raise doubts that those factors are as important as they are generally believed to be. The Negro unemployment rate is substantially lower in the South than in the North; and the Negro rate as a ratio of the white rate is also lower in the South than in the North. Among whites, the highest rates of unemployment are among the least-educated. The least-educated Negroes have unemployment rates that are either lower or only a little higher than the corresponding white rates; the highest Negro unemployment rates, and the largest Negro-white differentials, are at the middle levels of education. Adjustment of the Negro rates for excess hidden unemployment among the Negroes does not change this pattern, except for accentuating the Negro-white differences at the middle and upper levels of education. The Negro-white differences in unemployment rates are also much larger among the young (under 45) than among the old.

Neither fiscal drag, nor racial discrimination, nor fewer years of schooling for Negroes can explain the growth of the Negroes' relative disadvantage since the late 1940's and the present distribution of disadvantage among Negroes. Unless we can explain these growing Negro-white differences in the extent and patterns of disadvantage, we cannot claim to understand Negro unemployment; and if we do not understand it, we cannot hope to develop remedies which are tailored to the size and shape of the problem.

Two pieces of information suggest the consequences of continued neglect of the unique characteristics of Negro unemployment. In recent years, the Negro population has been growing about 50 percent faster than the white population; hence, although Negroes are about 10 percent of the present labor force, Department of Labor projections suggest that Negroes will contribute nearly 20 percent of the additions to the labor force between now and 1970. The second piece of information is buried in tables in the back of the 1965 *Manpower Report*. Between 1960 and 1964, total employment in the United States increased by about 3.7 million persons. White teenage employment increased by about half a million. Nonwhite teenage employment *decreased* slightly, although the nonwhite teenage population increased at an even faster rate than white teenagers. At a time when Negroes are winning greater social and political equality, they are not likely to accept the growth of economic inequality.

V

As noted above, the spectacular failure of such predictions as the one that Negroes and teenagers would benefit the most from tax-cutting has not shaken the faith of the Council of Economic Advisors in its diagnosis of the causes of excessive unemployment. But the disparity between prediction and emerging reality appears to have weakened the influence of this diagnosis on Administration policy. There are signs of a basic shift in emphasis in the Administration's efforts to achieve full employment. One of the signs is a largely unnoticed statement in President Johnson's recent Manpower Report. The President said the following: "But, as I have also emphasized, fiscal and monetary steps to achieve the full measure of needed growth may encounter problems of inflationary pressures before unemployment targets are reached."

It is true that a reduction in excise taxes has been recommended to the Congress; but the proposed magnitude of this tax-cutting is far smaller than the increases in expenditures for education, retraining and the War on Poverty that have either been voted in recent months or are under consideration. Furthermore, there is welcome realism in the recognition at the highest levels that these new programs are but small beginnings on large problems. In my judgment, this new emphasis in employment policy is likely to yield much larger returns in the long run than the earlier emphasis on tax-cutting as the "centerpiece of policy."

But "the long run" is much too distant for those who are most disadvantaged in today's labor market. As I see it, the greatest missing component in our emerging employment policy is a program of *job creation* specifically tailored to the present characteristics and location of the disadvantaged groups. One of the disadvantages of Negroes, for example, is that disproportionately large numbers of them—especially in the North—are crowded into the slums of the biggest cities. I believe that one of the most effective ways to get at this and a host of related problems would be to develop, as one of the major objectives of the War on Poverty, a massive program of hiring and training the poor to help the poor. I am talking about something quite different from the current struggles concerning who is to plan and administer the local programs; I am talking about the foot-soldiers of the war, not the generals. Some remarkably successful pilot projects have demonstrated the feasibility of training those who are being called "the indigenous poor" (surely an unfortunate phrase!) to perform highly useful work as aides to professionals in education, social work, sanitation, counseling, and other fields. Thus, this kind of job creation helps to meet two kinds of shortages at once: the shortage of jobs for the poor and the shortage of trained professionals to guide the rehabilitation of the poor.

The War on Poverty already has begun a very small program of this type. Sargent Shriver has estimated that by midyear there will be about 30,000 jobs for "the indigenous poor" under the auspices of his agency. I propose that this aspect of the War on Poverty should be multiplied many times over. Of course the cost would be large. Indeed, the expenditure might get to be as much as a fourth or a third of the size of the 1964 tax cut. I am increasingly confident, however, that the American public can be persuaded of the necessity and the benefits of this kind of investment in human beings. Surely self-help is an essential part of any effort to rehabilitate the slums and the people trapped in them. It is one of the means to the end set before us by President Johnson's memorable if inelegant phrase: we've got to make more people taxpayers instead of taxeaters.

6

DEMAND VERSUS STRUCTURAL UNEMPLOYMENT

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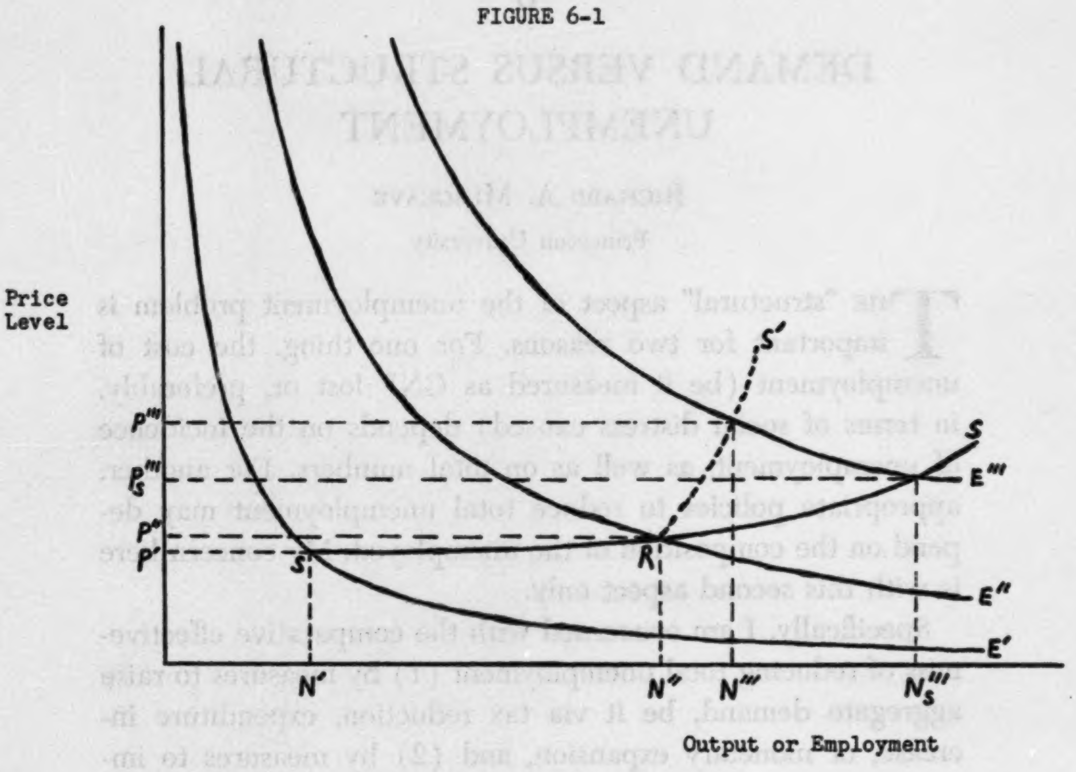
THE "structural" aspect of the unemployment problem is important for two reasons. For one thing, the cost of unemployment (be it measured as GNP lost or, preferably, in terms of social distress caused) depends on the incidence of unemployment, as well as on total numbers. For another, appropriate policies to reduce total unemployment may depend on the composition of the unemployed. My concern here is with this second aspect only.

Specifically, I am concerned with the comparative effectiveness of reducing total unemployment (1) by measures to raise aggregate demand, be it via tax reduction, expenditure increase, or monetary expansion, and (2) by measures to improve the employability of the unemployed via retraining, education, placement and other labor market policies. This comparative effectiveness, I take it, is the crux of the debate between the "aggregate demand" and "structural" schools.

The basic economics of the matter are quite simple, and may be represented with the aid of Figure 6-1. On the vertical axis we measure price, and on the horizontal axis we measure output which, for present purposes, also reflects total employment. For a given level of money expenditures or GNP we have the simple identity $E = PN$, where E is money expenditures, P is the price level and N is units of output or employment. Plotting this we obtain the constant expenditure curve (rectangular hyperbola) E'. Also, at any time there exists in the economy something like a supply schedule (a great-uncle of the Phillips curve), such as shown by SS, which records the levels of P and N that will be reached as the level of expenditures is increased above the prevailing base.

Demand vs. Structural Unemployment

FIGURE 6-1



Suppose the initial expenditure line is E′, the initial output or employment is N′ and the initial price level is P′. Suppose also that N′ involves a "high" level of unemployment and excess capacity in the economy. We would then expect that an increase in the expenditure level from E′ to E″ within, say, one year, will result in a substantial increase in output (from N′ to N″) and very little rise in price (from P′ to P″). Also, we would expect that if the rate of increase in E is sufficiently large, say to E″′, the additional demand will press hard on available factors and be reflected largely in increased prices rather than in increased output. Since the adaptability of the economy to an increase in demand is a function of time, the slope of SS will be the steeper, the faster the shift to a higher expenditure level is made.[1] Let us suppose we deal here with a one-year period.

[1] Limited availability of resources, however, will result in an eventual

What does the "structural unemployment" thesis have to do with all this? A great deal, because it argues that the SS schedule to the right of the prevailing expenditure level is steep, so that increased expenditures would be frittered away largely in rising prices rather than increased output and employment. This steepness of the SS schedule results because of mismatch between the composition of the unemployed and the composition of the incremental demand for labor induced by a rising expenditure level. In other words, the severity of the "structural" problem is measured by the slope of the SS schedule. The more severe the mismatch, the steeper is the slope and the less effective are aggregate demand measures.

Consider now what happens if "structural" measures are undertaken. Suppose we are at R and launch a large program for retraining, labor mobility, etc.; and, to make my point clear, let me suppose further that this program is financed by taxes so as to neutralize its aggregate demand effect. Suppose also that, in the absence of the program, the supply schedule would be as shown by the steeper RS′ curve. Due to the program, a better fit between incremental labor supply and demand is obtained, bending the curve downwards to the lesser RS slope. Movement from E'' to E''' now raises employment to N_s''' not only to N'''; and the rise in prices is to P_s''' only and not to P'''.

The structural program is successful in paving the way for the increase in E to do its job. But note that introduction of the program alone does not move us away from N''. For this to come about, we must also have a shift in the E schedule, i.e., an increase in the expenditure level. Even without this, the program may be useful in redistributing unemployment

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upward slope even if the increase is very gradual. Note also that we are dealing here with the bottleneck cause of the price level-employment relation. The administered wage-price policy aspect (cost-push inflation) is a different matter, and may well be related to the *level* of employment, rather than the rate of increase in outlays.

and this may be important in reducing the distress caused by a given level of unemployment. Nevertheless, this constitutes employment diversion, to borrow a term from international trade, not employment creation. For employment creation to come about, we would have to assume not only that labor cost will fall in response to the structural program but also that prices will decline in consequence, a condition which I would reject as rather unrealistic. Structural measures may (and eventually will) be necessary; but they are not a sufficient condition for raising total employment.

Consider now whether the tax cut has been successful as the Council claims, or a failure as Professor Killingsworth suggests. To be sure, the cut did not lower unemployment to 4 percent. This result should not have been promised if, indeed, it was. What the cut did do—and this, it seems to me, is what matters—was to bring about a substantially higher level of expenditure and (with prices nearly constant) output and employment then would have prevailed otherwise. During 1964, GNP rose by $38 billion and employment by 1.5 million, while the price level was nearly stable. Whether 50 or 75 percent of this gain was due to the tax cut, does not matter; but surely, the cut did make a substantial contribution.

Given this fact, the success of the tax cut is not vitiated by the circumstance that the labor force and productivity grew more rapidly than anticipated. Indeed, these developments showed that structural restraints were less serious than expected. Output and employment rose just as anticipated and this, I repeat, is what matters. The movement, in other words, was of the N′ to N″ type, and structural impediments were not a factor. Far from having failed, the experience suggests that a larger cut might well have been called for to do the job fully. At the same time, we only know that actual structural programs were adequate (as evidenced by the absence of price rise), for the actual tax cut. A greater structural effort might have been needed to have the same result for a larger cut.

Demand vs. Structural Unemployment

However this may be, the interesting issue now is not what might have been done in the past, but what should be done in the future. The question to which the assembled labor market experts should address themselves, is this: Comes January 1966, will we be in a position such as shown by N′, in which case the number one requirement will be further strengthening of aggregate demand? Or, will we be at N″, with the further path as indicated by RS′, in which case it is essential that expansionary measures be accompanied at once by more adequate structural programs?

My hunch is that we shall be closer to N′ than N″, given the feasible scale of expansionary policy. Nevertheless, an increased concern with structural measures will be needed sooner or later, and the sooner the more seriously the 4 percent goal (or better) is taken. The combined policy of demand expansion and structural improvement may then take the form of deficit spending on structural programs. The two approaches may thus be combined, but there is no reason why the level of spending needed for structural programs should just match that needed for demand expansion. Other program adjustments, be they tax or expenditure changes will be needed as well. The extent to which the tax or expenditure side should be relied upon in these other adjustments, poses a further interesting structural question; but it has nothing to do with that of "structural unemployment" vs. "aggregate demand" which is considered here.

7

DISCUSSION OF PAPERS ON THE AGGREGATE-DEMAND APPROACH*

Not only were all those who discussed the tax reduction of 1964 unanimous in their endorsement of it, they were also unanimous in suggesting that aggregate demand should be increased further in order to reduce unemployment. The unanimity did not, however, extend to the suggestions for achieving this increase. Differing appraisals of the relative benefits from public and private spending led to differing recommendations regarding the mixture of tax reduction and increases in public expenditures; and differing appraisals of the likelihood that the economy will soon encounter serious bottlenecks of skilled manpower led to differing preferences regarding the amount to be spent on selective manpower policies.

Preferences regarding the amount to be spent on selective manpower policy are also influenced by one's appraisal of the degree to which aggregate policies have been successful in decreasing the exceptionally high unemployment rates of certain groups. As the data in Table 4-1 indicate, those occupations having the highest unemployment rates in the first quarter of 1964 tended to show the greatest improvement (whether measured as percentage points or as a fraction of the 1964 rate) by the first quarter of 1965. If one examines the unemployment rates for certain demographic groups, however, the results are quite different. The unemployment rate for Negroes remains more than double the rate for whites, while the teenage rate has shown no improvement at all. Those who look only at the occupational data are encouraged by the result of aggregate policies, but those who see the continuing concentration of unemployment among specific racial and demographic groups may propose selective manpower policies

* This summary was prepared by William S. Peirce.

to change the distribution of unemployment. The combination of the two sets of data suggests that the problem is not occupational or industrial as such, but may be more closely related to the changes in composition of the labor force and the migration of Negroes to urban areas described in the Bowen paper.

The question arose as to whether the recent tax cut had increased aggregate demand to the point where bottlenecks are becoming apparent. The unemployment rates for key groups such as "managers, officials, and proprietors" and "professional and technical workers" have not changed much since the tax cut. These rates were already so low and the classifications so motley, however, that even a serious shortage might not decrease the rates further. Reliable data on vacancies would be very helpful in determining whether or not bottlenecks have occurred.

It was also pointed out that national unemployment rates indicating ample labor supply may conceal severe shortages in particular localities. As evidence of the existing shortages it was stated that the work week in manufacturing is at a high level and the amount of overtime worked is at a wartime level. These facts do not prove a shortage of skilled labor, however. Even if the unemployed can readily be trained to the same skill level as those who are working overtime, employers may find it cheaper to pay the overtime premium rather than add new workers to the payroll. Furthermore, in some industries the immediate constraint to further expansion is limited plant capacity. In short, capital goods may be a bottleneck. This, of course, will be remedied by the firms involved, but the long lead time in the production of machine tools suggests that some industries cannot increase output much at this time. The severity of a bottleneck thus depends on the rapidity of the increase in aggregate demand.

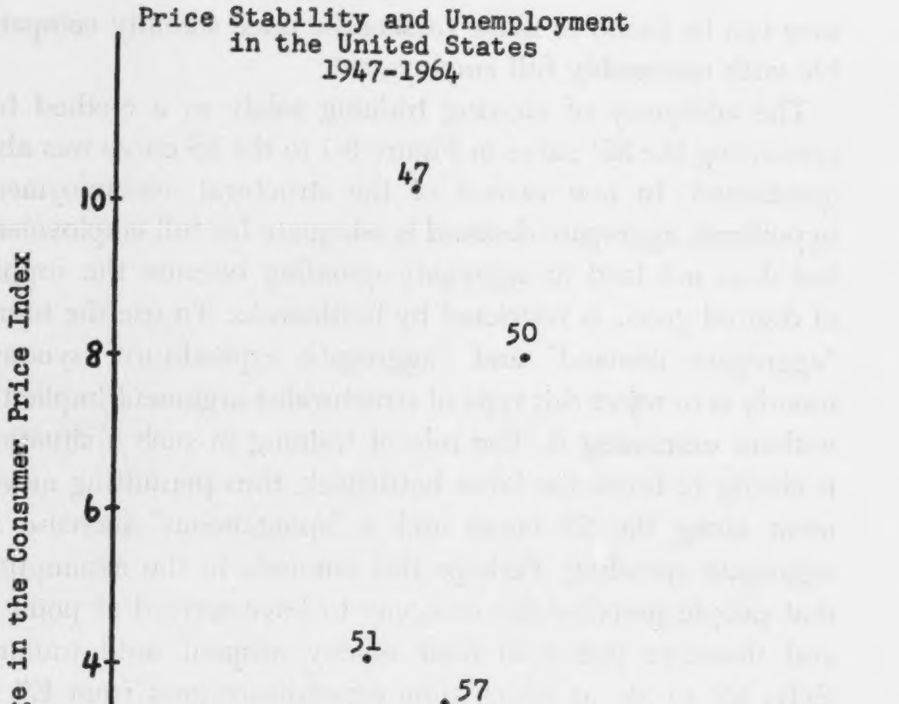
The question was raised as to whether the often mentioned 4 percent unemployment rate really is a goal of policy. In this, the fifth year of the Kennedy-Johnson administration, the unemployment rate seems likely to average nearly 5 percent. If policy is based on the assumption that unemployment will remain above 4 percent for a considerable duration, then the job rationing aspects of manpower policy become significant. That is, to avoid the social problems likely to accompany persistently high unemployment for particular groups, a special effort should be made to provide a hiring advantage, by means of training, to members of the disadvantaged groups. Such a measure is "employment diverting" rather than "employment creating," to use the Musgrave terminology.

The failure to pursue more vigorously the goal of full employment is undoubtedly related to the precarious balance-of-payments situation. It was suggested that the outflow of gold and the increase in the short-term liabilities of the United States are not results of price increases, which have been smaller in the United States than elsewhere, but can be attributed to private investment in foreign countries, government spending abroad for military and other purposes, and spending by American tourists. Paying for these transfers by domestic unemployment is considered by many to be inappropriate and inequitable.

The question was also raised as to whether the Council of Economic Advisers bases its recommendations on the concept of a trade-off between price stability and unemployment. As illustrated in the SS schedule of Figure 6-1 this view seems theoretically unassailable. At some point diminishing returns must set in and costs begin to rise. As Musgrave points out, the crucial question concerns the steepness of the slope of the aggregate supply schedule at each point and the existence of kinks. An examination of Figure 7-1, however, leads one to doubt the stability of the relationship. Years with similar unemployment rates have had markedly different records of price-level stability (e.g., 1955, 1956, and 1957) and years with similar rates of price increase have had different unemployment rates (e.g., 1953, 1958 and 1964). In one respect, the variability is encouraging: it provides some hope that meas-

FIGURE 7-1

Price Stability and Unemployment
in the United States
1947-1964



Sources: Consumer Price Index 1947-58 is taken from Bureau of Labor Statistics Bulletin 1256; later years, from Monthly Labor Review.

Unemployment as a percentage of civilian labor force is taken from Table B-21 of the 1965 Annual Report of the Council of Economic Advisers.

ures can be found to make reasonable price stability compatible with reasonably full employment.

The adequacy of viewing training solely as a method for converting the SS′ curve in Figure 6-1 to the SS curve was also questioned. In one variant of the structural unemployment hypothesis, aggregate *demand* is adequate for full employment but does not lead to aggregate *spending* because the supply of desired goods is restricted by bottlenecks. To use the terms "aggregate demand" and "aggregate expenditure" synonymously is to reject this type of structuralist argument implicitly without examining it. The role of training in such a situation is clearly to break the labor bottleneck, thus permitting movement along the SS curve and a "spontaneous" increase in aggregate spending. Perhaps this amounts to the assumption that people perceive the economy to have arrived at point R and therefore just hold their money unspent until training shifts SS′ to SS, at which time expenditure goes from E'' to E''' without further action by fiscal and monetary authorities. Another possibility is that a subsidy to training may make marginal investment decisions sufficiently profitable to businessmen to induce them to borrow (hence inducing the banking system to create money) at an interest rate that has been set for balance of payments considerations. The effect is to shift the aggregate expenditure curve outward, rather than decreasing the slope of the supply curve.

Most participants in the discussion indicated that future policy should include both increases in aggregate demand and expansion of selective manpower policies. The opinion was also expressed that, if economic goals alone were under consideration, it would be rational to increase spending on manpower programs (especially training) as aggregate demand is increased; the two are complements, not substitutes. An expansion of aggregate demand must increase the probability that bottlenecks will be encountered. As mentioned earlier, however, the goal of diverting jobs to the disadvantaged calls for continued reliance on selective manpower policies in slack labor markets.

Disagreement arose when people began to discuss how much should be spent for specific manpower policies. It was asserted that the United States has moved very fast in developing training programs and other selective measures. Considering that the problem was hardly discussed just a short while ago and administrative procedure and operating staffs had to be developed, perhaps more money could not have been spent usefully in the past. The waste which might have accompanied more rapid expansion could have turned public opinion against the programs. Others, however, asserted that many good programs had been cancelled or postponed for lack of funds.

The sentiment for increasing aggregate demand by public expenditure rather than tax reduction was strong. It was suggested that aggregate demand be increased by greater spending on selective manpower policies. However, it was pointed out that the analytic distinction between selective manpower policies and increases in aggregate demand should be preserved. Either can be achieved without the other. As a matter of budgetary procedure, it was pointed out that a decision to expand aggregate Federal spending should undoubtedly result in an increase in most Federal programs. The effect would be to move each agency to undertake projects of slightly lower priority, rather than permitting a vast expansion in a few specific projects.

Among the advantages cited for public expenditure as opposed to tax cuts is the possibility that both transfer payments and job creating expenditures can be directed specifically toward the most disadvantaged. It was also asserted that increasing the income of the poor will lead to smaller price increases than other methods of increasing aggregate demand; for the poor will spend their money on food and manufactured goods with highly elastic supply.

PART III

SELECTIVE MANPOWER POLICIES

8

THE ROLE OF "JOB CREATION" PROGRAMS

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National Commission on Technology, Automation and Economic Progress

The most important single issue raised by the 1965 *Manpower Report* of the President results from the simple addition of two numbers. For the next 15 years the average annual growth of the labor force will be about 1¾ percent. The average annual rate of increase in output per man hour has been 2.8 percent over the postwar period. Leaving aside any question of acceleration in the latter rate, the sum is 4½ percent per year, the rate at which jobs must be created just to keep unemployment from rising above the already excessive level of unemployment. These numbers represent an unprecedented challenge. An economy with a 3 percent historical growth rate and a 3.5 percent record for the past two decades must suddenly and permanently begin creating jobs at a rate of 4½ percent and above.

Other participants in this conference were asked to discuss the role of aggregate demand in reducing unemployment. I recognize the jurisdictional limits implied by the quotation mark fence around "job creation" in my assigned topic. Yet one cannot meaningfully discuss specialized programs for the creation of jobs without treating first the broader question, "How are jobs created?" Only after that preliminary discussion can I get to the heart of my topic: In contrast to the more usual public policy approach of creating a demand for labor, then expecting or assisting the supply to adjust to demand, is there a role for programs whose intent is to tailor jobs to the abilities or the limitations of those competitively disadvantaged in the labor market? In posing the question, it is well to keep in mind that the labor market in its normal operation does both. Not only does it provide incentives to employees to adapt themselves to the employers' needs, it also adjusts production processes to utilize the labor available.

The Job-Creation Process

It is a trite but often overlooked principle that jobs are created only by the spending of money. Education does not create jobs; retraining does not create jobs; placement does not create jobs. Education and training may determine who gets hired and in the rare case of absolute skill shortages may allow the new job to come into existence. Matching men and jobs by placement or relocation likewise allows the fulfillment of already existing demands. But jobs are created only by the purchase of goods and services. Short of replacing capital with labor or reducing wages to hire one for the price of two, employment will rise only as total expenditures, public and private, are increased. Any program to create jobs has only four alternatives: (1) It can induce consumers and investors to make purchases they otherwise would not have made, either from savings or borrowings. (2) It can leave more purchasing power in their hands through tax reduction. (3) It can underwrite private expenditures through transfer payments or subsidies. (4) It can spend public moneys for direct purchase of goods or services.

What, then, can be said about the various routes to job creation and what are the relative roles of each? First, the great bulk of jobs in our society will always be in the private sector of the economy serving the demands of private individuals for goods and services. In this context, the private market mechanism has proven itself to be a remarkably efficient allocator of available labor and other productive factors among alternative goods and services in accordance with consumer and investor priorities. It has done less to see that these resources were fully utilized. It has done nothing about allocation between the private and public sectors and within the latter.

Job Creation Programs

Reliance on fiscal and monetary tools is the most appropriate prescription for the general economic practitioner. There should no longer be doubt that the "fiscal drag" diagnosis was a correct one. The 1964 tax cut fell far short of its promised 4 percent unemployment but this was a matter of underestimating the job creation task, overselling the effects or both. The results have been adequate to restore faith in the job creating abilities of simple infusions of private purchasing power.

But the effectiveness of the tax cut does not provide the final answer for job creation. It proves the effectiveness of infusions of purchasing power through government policy but it provides no measure of the relative efficiency of alternative sources of fiscal impetus. Though we all know better, there is a tendency to equate fiscal policy with tax policy. Probably much of the aggregative-structural argument which has consumed so much time and space in recent years would have appeared less dichotomous had expenditure increases been the advocated route to demand increases.

Theoretically (and probably actually), public expenditures are more potent job generators than tax reductions. But the more important issue is one of allocation of labor resources. A harmful adage has been widespread among fiscal economists: "Consider public expenditures only upon their inherent merits, rely primarily upon monetary and tax policies to increase demand."

The private sector bias of this philosophy is obvious. There exists no market mechanism to allocate resources between the private and public sectors and within the latter. Only the cumbersome political mechanism is available. For the public policy maker to neglect this choice is to abrogate responsibility. Both tax reduction *and* expenditure increases should be considered upon their respective merits including their relative employment generating effects. Despite its budgetary consequences, the generation of employment through increased government expenditures is no more economically expensive than job creation through tax reduction. There are only two issues, both based upon social value judgements: (1) Where are the products of newly-employed labor likely to be of highest value, in the private or the public sector? (2) Which route is likely to provide employment opportunities to those considered most socially deserving? On either test, a strong argument can presently be made for heavier reliance upon expenditure policies.

Why "Job Creation"?

But if aggregate policies, whether via taxation or expenditures, are so effective why be concerned with special job creation programs? In fact, why manpower policy of which "job creation" is a part? Other manpower policies can be justified upon at least two grounds: (1) the reduction of inflationary pressures on the way to full employment and (2) the added efficiency to be gained from the development of human resources. Special job creation programs likewise have two justifications. The first is shared with manpower policy in general. The second justifies "job creation" efforts in a slack economy—the redistribution of available jobs in favor of the more competitively disadvantaged in the labor market. Since our subject matter is "job creation," not manpower policy, I will discuss only the latter two.

The Inflationary Consequences of Full Employment

I begin with a caveat which must remain a matter of faith since it can never be demonstrated: Any desired employment goal would be attainable by aggregative means alone if we would or could accept the price level consequences. Since we will not, the question we have faced throughout the post-war years remains relevant to any aggressive attempt to attain full employment—the balance between employment and price stability.

This is neither the time, nor am I the appropriate candidate, for an extensive discussion of the employment-price level dichotomy but a few comments are necessary background to the present discussion. In 1946, the Congress of the United States promised "maximum employment, production and purchasing power." The 3.1 percent unemployment average which prevailed until the end of the Korean War gave a hopeful start. The 4.6 percent 1954-57 average and the 5.6 percent 1957-64 experience questions the fulfillment of promise. A colleague has suggested willingness to grant the economy a "B" grade in job creation upon the basis of this record. I prefer to grade in relation to ability and comparative performance. In some subjects, 94 percent performance might mean an "A." But if that is the appropriate grade for European experience, can we really justify more than a "C" for 1947-53 and a "D" for 1954-64?

Whatever the appropriate grade, the major obstacle to better performance has been the fear of inflation. Despite the excellent price stability record of the post-war period, the inflation tolerance of the American public proved remarkably low. Present restiveness in monetary circles offers little hope that tolerance has increased. The hope for full employment rests with the addition of manpower policy including the "job creation" programs which are a part of it.

This then is the primary justification of manpower policy in an economy which takes its employment goals seriously. Given adequate demand, man-hungry employers would recruit, train, lower requirements, redesign jobs, pay relocation costs and even move to labor surplus areas. They would also bid with each other for the more competent help, meanwhile exploiting the freedoms of a seller's market. Workers would also demonstrate a surprising degree of adaptability but would not neglect their own bargaining power.

Under these conditions it becomes the role of manpower policy to bring the labor market as near as possible to textbook efficiency, assuring that new entrants have the requisite skills, that those with obsolete skills are provided new ones to speed their reabsorption, providing the necessary information and assistance to match men and jobs occupationally and geographically with minimum delay. Special employment programs ("job creation" programs for present purposes) tailor employment opportunities to the needs of those so competitively disadvantaged that excessive demand pressures would otherwise be necessary to their absorption.

The manpower policies and programs of the last four years have often been criticized for their inadequacies. Viewed historically and as beginning developments, the progress has been dramatic. When the history of U.S. employment and manpower policy is written, the years 1954-61 will be seen as a recoiling from the implications of the Employment Act of 1946; 1961-65 will appear as the first faltering experimental steps toward a dual approach—adequate job creation by aggregate demand safeguarded against inflationary consequences by manpower policy.

But the role of manpower policy in the attainment of full employment has only longer run significance. Leaving aside the difficult question, "Why would a nation with choice choose to live with substantial unemployment?", what is the potential role of "job creation" programs in a slack labor market? Keep in mind that only if it results in a net increase in purchases of goods or services (or the substitution of labor for capital or low wage labor for high wage labor) will a net increase in the number of jobs result. Considering the numerous disadvantages that society has heaped upon certain individuals and groups by way of race, age, education, skill and motivation, favoritism in the distribution of some available employment opportunities is defensible policy. In discussing the role of "job creation" programs, care will be taken to point out which are really job creating and which could be more appropriately called job rationing.

The Role of "Job Creation" Programs

In April 1964, the Clark Subcommittee on Employment and Manpower recommended a "special direct employment program" designed to "end the concurrence of idle manpower and unmet public needs." No recommendation in the extensive repertoire of the Senate Subcommittee's report was approached by the Chairman and members with more trepidation. A similar proposal was discussed and rejected in designing the Poverty Program. Not since the depression had there been serious discussion of direct public employment of the unemployed. Only the community work-training program of the 1962 Social Security Amendment which offered limited numbers of public assistance recipients the opportunity to earn benefits they would have received without effort and the still potential Youth Employment Bill suggested a breach on that silence. Even so, the Subcommittee felt the need to cover its rashness with a defense of the New Deal programs. One year later, several measures of "job creation" for the disadvantaged have found their way into law, the President has directed the Secretaries of Labor and Commerce to undertake a Job Development Program designed to create 10,000 jobs per month in the "service and related sectors of the economy" and a National Manpower Policy Task Force under the chairmanship of Professor Harbison is meeting with the Secretary of Labor later this month to offer advice on the subject. What are the possible non-aggregative routes to job creation, where do present and proposed programs fit and what additional "job creation" programs are conceivable?

Job Creation in the Public Sector

Given the general efficiency of product and labor markets, few unmet demands exist in the private profit making sector of the economy. Persistence of a gap between demand and supply requires special circumstances to be discussed below. By contrast, no economic market exists for allocation of resources to collective goods. Only politics is available and the backlog of needs is legion. To enumerate the volume, one need only ask, "If labor were free, what tasks would be worth doing?" Then if one accepts the premise that it costs nothing to employ an unemployed worker as long as his increased consumption does not exceed his addition to production, that becomes the volume of worthwhile employment. On a more orthodox level, any serious attack upon the volume of needs already widely accepted as worth the cost but unmet either because they are collective goods for which the necessary political consensus has not been reached or because they are private goods which the potential recipients lack the purchasing power to demand would obviously exhaust our available labor supply.

It was analysis of this type, explicit or implicit, which led to the work relief programs of the 1930's. Worthwhile work was available and people needed jobs. Both were important but jobs were the priority concern. The contracting out of public works to private contractors could not be relied upon to distribute jobs to those most in need of them. The most efficient means of production from the employers' point of view was not necessarily the most efficient under the conditions for meeting society's goals. After some initial highly criticized experimentation, a satisfactory and profitable marriage was consummated.

The same dichotomy still exists. Worthwhile public investment opportunities could utilize the entire available labor supply. But contractors and suppliers would focus their recruiting efforts upon the most attractive portions of the labor supply. Whether to ration job opportunities in a slack labor market or to reduce wage and price pressures in a tight one, a "job creation" approach would still be needed to supplement the job creating effects of needed public investments.

Only in the youth and public assistance areas have we reinstituted this concept today. Beginning with local experimentation under the Juvenile Delinquency and Youth Offenses Control Act and the experimental and demonstration program under MDTA and leading to the Neighborhood Youth Corps, Job Corps and Work-Study Program under the Economic Opportunity Act, disadvantaged youth have been employed with federal funds to perform highly useful services. The tasks existed all along but they were prevented from becoming jobs because of the limited resources of their public and nonprofit sponsors. Among the three programs, 88,000 new jobs have been created and 300,000 per year are contemplated. Since these are for youth with appropriate emphasis on remaining in school, only the Job Corps conservation program and about one-third of the Neighborhood Youth Corps, a potential 95,000 per year, are fulltime.

The Public Assistance Community Work-Training Program was transformed into the Work Experience Program under Title V of the Economic Opportunity Act. The program now employs 8,300 adults in useful work with a goal of 88,000. However, the present program allows them to earn only their public assistance benefits. The onus of work relief has not been either eliminated or hidden. Similar programs could be proposed under the Community Action Program but, to date, there has been little local interest nor little Federal attempt to direct local interest toward the creation of jobs. Close to 5,000 of the "indigenous poor" will be employed as aides of various kinds but as a by-product rather than as a goal.

But these programs leave three basic questions to be answered: (1) If it is true that the useful work to be done is almost limitless, if job-creating public expenditures are a paying investment and if it is true that all of these programs and all urban poverty centers are inundated with applicants, why not more of the same? (2) Isn't sauce for the gosling also sauce for the gander? If it is valid public policy to create public sector jobs for youth, why not for adults whose disadvantages in all except experience are even more endemic? (3) But what awaits the beneficiaries of "job creation" programs? None of the enumerated programs offer permanent employment. Will the now-experienced youth once again face unemployment at the end of an NYC project or Job Corps enlistment? The hope is that the specialized public sector employment will be just a prelude to permanent jobs. Perhaps the programs can be justified as holding actions. The mere survival from age 17 to 21 makes a teenage worker more attractive. A permanent solution will come only with higher levels of demand to which, of course, the costs of the programs contribute.

Programs to employ the hard core unemployed in eliminating the environmental deficiencies with which they are constantly surrounded have overwhelming logical support:

(1) The environmental deficiencies of the typical urban slum or rural backwater are the major blots upon a Great Society. They are breeders of crime, family disintegration, degradation and frustration.

(2) The labor of the hard-core unemployed is as near to being a free good as it can be for a useful factor of production.

(3) But labor is more than a factor of production. It is a source of status, dignity and income. It is an end in itself without which life in a work-oriented society has little meaning.

(4) In an economy where the full employment commitment is taken seriously, direct employment programs focus upon the groups most difficult to bring into employment and most likely to generate inflationary pressures before the effects of aggregate demand trickle down to their level.

(5) Where, by apathy or choice, unemployment is allowed to remain high, direct public employment can be focused upon those with the greatest need for employment leaving to the labor market those most able to compete.

(6) In addition to all that, the expenditures add to aggregate purchasing power and thus to the creation of permanent employment.

The Unmet Needs of the Private Sector

There is no mystery in the failure to provide more private sector jobs through tax reduction nor public sector jobs through expenditure programs. We simply have not made the political decision to do so. This is true on both the aggregate level and the meeting of specific needs in the public sector. It has been argued that unmet needs exist in the private sector as well, the meeting of which offers substantial employment opportunities. Insofar as these unmet needs involve those with deficient incomes, the concept is also clear, even though the solution is difficult. The market reacts to demands, not needs. The solution is either public expenditures in the form of transfer payments or the creation of adequate employment opportunities.

But the unmet private needs issue is not limited to deficient incomes. Complaints are frequent of unfillable job vacancies and of inadequate supplies of service personnel. There is no doubt that job vacancies exist. With no available measure, some have been able to argue without refutation that the number equals or exceeds the number of unemployed. The measurement of job vacancies will make this hypothesis untenable. Those job vacancies which do exist are primarily for the higher skills but enough remain at lower skill levels to justify MDTA and relocation programs and improved placement services to match men and jobs. An interesting question is: Does the job exist when the vacancy is recognized or only when it has been filled? The matching of the man and the job should not be confused with the demand which led to creation of the latter.

Contemplating complaints of unfilled demands for services, President Johnson on February 1, announced a new Job Development Program. As his language makes clear, job development and job creation are not synonymous. His message is concerned with alleviating deficiencies in the quality as well as the quantity of services. The justification of the program does not rest solely upon its job creating abilities but for purposes of this paper it provides an opportunity for analysis of unmet private sector needs.

In the President's words:

Unemployment in America stands at almost five percent. Yet we face the paradox that with nearly four million people unemployed

- —it often takes weeks to have an appliance or other repair made
- —hospitals and many other community services are understaffed
- —housewives cannot get the help they seek for work in the home or in the yard
- —we have been admitting almost 200,000 foreign workers annually because American workers were not considered available
- —and the papers are full of Help Wanted Ads

I am convinced that a substantial number of jobs can be developed from such presently existing and unmet service needs—in business, at home, on the farm and in the community.

Therefore, I am launching a nationwide Job Development Program in service and related fields

- —to assure that trained workers are available to provide needed services at satisfactory wages and working conditions
- —to assure that managerial skills are developed to provide these services as part of our free enterprise system
- —to assure that consumer needs are met better and more fully.

The Secretary of Labor and the Secretary of Commerce are charged with responsibility for carrying this program forward.

By July 1, 1965, this Job Development Program should reach 10,000 jobs a month.

Accordingly, a new job development mandate was added by Congress to the Manpower Development and Training Act, authorizing the Secretary of Labor to:

Section 102 (7) stimulate and assist, in cooperation with interested agencies both public and private, job development programs, through on-the-job training and other suitable methods, that will serve to expand employment by the filling of those service and related needs which are not now being met because of lack of trained workers or other reasons affecting employment or opportunities for employment.

The Secretary has no more difficult and challenging assignment. It requires delving deeply into the workings of the market economy. With no expenditure of public funds except those already contemplated in existing programs, how to identify potential consumer demands not now being fulfilled and then encourage employers to expand employment to meet these needs? The program is too new to recount experience but it does present a framework for speculation upon the working of the market economy.

The initial stages of the program have consisted almost entirely of an expansion of on-the-job training under the Manpower Development and Training Act. In the first two years, on-the-job training played a minor role in MDTA. The problem was partly one of staffing and partly one of concept. In the past year, MDTA-OJT has expanded more than proportionately and a continuation of this trend is contemplated. The major restraint upon on-the-job training has always been the somewhat casual relationship of the individual employer to the labor market. Investment in equipment includes ownership of the machinery. There is no guarantee that a trainee, once provided with skills, will remain with the employer who paid the bill. Small employers particularly but large as well prefer to ride upon the training expenditures of other employers or the public education system. Recent events indicate some progress in overcoming this obstacle. Piracy is available to individual employers but not to employers as a whole in a particular industry or labor market. The new development has been the undertaking of OJT by employers acting in concert through industry associations or other multi-company organizations.

As examples, Chrysler Corporation is sponsoring a training program on behalf of its dealers to train with MDTA-OJT assistance one thousand automobile mechanics and body repairmen and an oil company is contemplating the training of 600 service station managers. The National Tool, Die and Precision Machining Association is presently sponsor for the training of 500 tool and die makers. Other such programs are under way or under negotiation in office machines, tire retreading, and hospitals among others.

But do these programs create jobs? The answer is by no means simple. Again, only if increased expenditures result. Jobs result only from increased expenditures but what generates expenditure increases? Like all decisions, the decision to expand employment is a marginal one. By subsidizing training costs to some degree there is likely to be some direct increase in employment as well as some accompanying increase in investment with its secondary effects. The amount of employment increase from that source is undeterminable but probably small. But what is the impact of the Secretary of Commerce's calling in corporation presidents and appealing for employment-generating OJT programs? Are unexploited expansion opportunities seized upon as a result? Is eventual expansion moved forward in time and if so, does this increase total employment in the long run? The discretionary margin is broader than the textbooks portray. Certainly something can be accomplished within that margin but how much?

The fact that most of the jobs under these programs would probably have existed anyway does not mean the programs themselves are not desirable. Perhaps the jobs would have been filled but with less qualified persons. We have long ago concluded that public investment in vocational education was worth the price even though it provides an almost complete 100 percent subsidy of employers' training needs. Without arguing the merits of this policy, on-the-job training as a partial substitute for institutional vocational training has both content and public cost advantages. In addition, the public buys a voice in the distribution of jobs. As a quid pro quo for assuming some portion of training costs, some of the scarce supply of jobs is rationed in accordance with social priorities. Granted, a different choice by employers might have left other job openings for those whom it is the public's interest to see employed. The vagaries of the job creation process are difficult to follow. But in the first instance, at least, participation in the costs of training allows rationing of jobs to those competitively disadvantaged by lack of skill and education, by race or by age, while also upgrading the labor force and improving the quality of service available to consumers.

The second thrust of the Job Development Program involves obvious concurrence of two of the Secretary of Labor's thorniest problems, youth employment and agricultural labor. The agricultural labor problem is a familiar mix of geography, wages, and foreign labor supplies. Farmers complain of inadequate labor supplies while the unemployed are concentrated largely in cities. Amplification and improvement of the day haul system and some imaginative efforts to recruit urban youth are under way. The end of the bracero program and the degree of control over wage rates given to the Secretary of Labor by Public Law 414 offers promise to domestic workers. Experience to date demonstrates that American workers will do stoop labor or anything else at a price. The tragedy is the irrationality of an economy which is forced to refuse the offer of needy foreign workers to perform unpleasant work at cutrate prices. In a less than full employment context, the interests of domestic workers must be protected. In a full employment economy (note international migration in Europe) the bracero would be welcomed.

Beyond encouragement of on-the-job training and contribution to the agricultural labor problem, the Job Development Program is only in an idea stage. Under discussion are public efforts to increase the efficiency of the labor market for domestic help, the development of private corporations to sell household services, efforts to fill the widespread demands for workers in health services and the development of subprofessional jobs to supplement the scarce supply of professionals in many fields. Each is at this point a subject for interesting speculation. Surveys by the Women's Bureau document the general reaction that supplies of domestic servants and home repairmen are inadequate. As in the agricultural case, there is no reason to doubt that at some wage every householder would be flooded with applicants. Can the situation be called a shortage if the prices householders are willing to pay fall short of the rates at which potential domestics are willing to work? To leave it at that point begs the question. The problem may be one of wages. It may be in part a faulty labor market which requires an excessive wage offer to overcome rigidities. It may also be that some form of public subsidy to bridge the gap is justified.

The lack of an organized market is easily observable. The casual nature of the market for household services requires an unusual degree of ingenuity on the part of a householder to contact the desired help, for domestics to locate a sufficient number of contiguous one-day-a-week cleaning jobs to create a full time job or for repairmen to develop personal relationships with enough householders to become independent businessmen. Geography is an added complication. All too often it is the urban slum resident looking to the affluent suburbs for employment.

In other industries of similar problems middlemen have appeared to profit from the matching of supply and demand or workers have organized to jointly control and facilitate the hiring process. Why not here? The obstacle to the latter is lack of cohesiveness, leadership and bargaining power. Perhaps risk is the deterrent to the former. If so, initial experiments might be publicly underwritten. Thought is being given to initial subsidization of private enterprises to recruit, train, bond and insure, uniform, schedule and transport domestic servants, home repairmen, custodial workers in small buildings requiring part-time help, baby sitters, practical nurses, and others. Perhaps the wages offered or demanded are too close to offer an attractive margin for entrepreneurship. Nearly every metropolitan area has its informal casual labor market—usually a street corner where by common consent casual employers drive by and select from a "shape up" of casual workers. Considering the employment needs of those disadvantaged by skill, education, race and location, public assumption of the entrepreneurial costs of regularizing these markets would pay social dividends.

All of these are merely questions to which, hopefully, the experimentation under the Job Development Program will provide answers. If successful, would these be "job creation" programs? Work now being done to a substantial degree outside the market by the householder would become part of the job market and the GNP. Would a net increase in total expenditures result or would the purchase of household services be offset by reduced consumption at other points in the family budget? In a sense the problem is the same as the introduction of any new consumer product. The difference is that new products are usually preceded by new investment in a somewhat self-generating cycle. Will the householder pay for his new services from alternative expenditures, savings or increased borrowing? Probably all three but in unknown combination which no amount of speculation can determine. But whatever the case, the result is likely to be jobs for some of those who need them most.

The sub-professionalization approach more clearly involves "job creation." If a number of lower-waged workers are trained to reduce some of the peripheral burdens upon an overworked professional, the result is reduced shortages, not a shift in the burden of unemployment. The chief resistance appears to arise from the same harried professionals who should welcome release from nonprofessional activities.

In part, the answer is negotiations with and education of the professionals. In part, a wage problem is involved. Hospitals, nursing homes, etc., complain of chronic labor shortages but not at attractive wage rates. Though these sources of employment are essentially in the public sector, the context encourages discussion here. The simple solution is that of the Neighborhood Youth Corps—a 90 percent federal government subsidy of a sufficiently attractive wage. Barring this or efforts to assist the filling of the jobs at the inadequate wages, some possibilities may exist for encouraging more efficient utilization of labor in the nonprofit and noncompetitive environment. This, too, is a subject for speculation and experiment.

Other examples might be given but these should be adequate to indicate the "state of the art." About the actual process in the aggregate, we know much. The creation of specific jobs in the public sector is also simple. It calls only for the provision of public funds. The encouragement of private employment at the level of specific jobs is uncharted wilderness.

The principle is well-accepted that government through the development of resources, the assumption of risks or the creation of infrastructure can encourage economic growth and job creation in the private economy. Note western agriculture, atomic energy and the building of roads into Appalachia. Is there an analogy in the growth of small business and in the creation of jobs for the disadvantaged? Can a combination of Small Business loans and the assumption of training costs encourage entrepreneurship in untapped areas? All indications are that job vacancies are more frequent in small than large business. Yet public employment services for administrative reasons tend to focus on large business. Is the bringing together of unemployed and a small business employer analogous to building a road between vacationers and potential vacation spots? Can aggressive government promotion efforts provide a spur to entrepreneurship that potential profits have not? What new combinations of public and private efforts are possible in such areas as slum rehabilitation?

The Job Development Program is an interesting and difficult experiment. If imaginatively done, much should be learned about the process of job creation.

Summary

Hopefully the following points have been made:

1. The creation of new job opportunities at a rate equal to the combined forces of productivity and demography is a crucial economic challenge.
2. No satisfactory answer can be found short of adequate economic growth.
3. Jobs are created only through expenditures, public or private, for purchase of goods and services.
4. The choice between tax reduction and public expenditure routes to overall job creation rests upon value judgements concerning the relative priorities of private vs. public goods. I share the widespread judgement that the greatest backlog of needs is public.
5. Attainment of satisfactory levels of unemployment through aggregate-demand increases, given the level of inflation tolerance, requires the accompaniment of effective manpower policies including programs to tailor some employment to the limitations of the hard-core unemployed.
6. In a slack labor market the role of such programs is to redistribute job opportunities in favor of the hard-core unemployed.
7. Ample opportunities exist in the public sector for productive use of all available labor.
8. The unmet private needs are also large but the unmet private *demands* are probably relatively small. Nevertheless, as job sources they are worth attention.
9. The President's Job Development Program is a novel experiment. It cannot do less than increase our limited knowledge of the job creation process and the role of "job creation" programs. If pursued with enough imagination, it may turn up some surprises.

9

THE ROLE OF GOVERNMENT-SPONSORED TRAINING AND RETRAINING PROGRAMS

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We are living in a remarkable period. On almost the total spectrum of domestic policy a long period of dormancy has been replaced by change that is broad, deep and rapid. No single sector can be thought of as more significant than others. Yet I have been impressed by the speed with which we have embraced the concept of an active manpower policy. I have been impressed, too, by the fact that this commitment was not foreshadowed by a long period of debate with a concomitant lengthy development of political forces for a series of massive engagements. True there was a sharp, sometimes acrimonious debate between the structuralists and the aggregative theorists. But even for the professionals this seemed always to have an unreal quality and the more pragmatic politician, as well as the American people, sensed early the conclusion that we need both, a position to which nearly all professionals have retreated as a happy compromise. In a few short years we have reached the state where hardly a respectable voice can be found to speak in opposition to the concept of an active manpower policy. For an idea that was barely voiced and hardly understood in 1960 to now have acquired a sanctity approaching motherhood is, I submit, a remarkable development.

Yet the overall design and much of the detail is still lacking. And it may not be possible for us to develop a comprehensive and cohesive manpower policy, as Fred Harbison has so persuasively demonstrated, as long as we try to center this responsibility in the U.S. Department of Labor. But we can go a

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considerable distance along this route and by now, I am convinced, we have gone so far that the process is irreversible.

The conception and birth of this now lusty infant can be traced to the manpower retraining program. Agreement on a manpower retraining program represented a political act of faith as well as a political marriage of strange bedfellows. There had been some promising experiences under the Area Redevelopment Act (A.R.A.) and foreign experience provided encouragement. Nevertheless confidence that we could make such a program work on a nationwide basis wasn't very widely shared and this was clearly reflected in the tentative three year commitment and later difficulties with appropriations approval. More important, the program provided a tolerable substitute for otherwise unachievable objectives of important political forces. Conservatives seeking to prevent fiscal stimulation to the economy or the adoption of the youth employment bill and similar proposals they considered a return to the early New Deal saw in retraining a way of deflecting these pressures. Some among them who tended to think unemployment was largely a mirage may have been persuaded that genuine unemployed and unfilled jobs could be brought together. Liberals preferred an expansionist budget on the one hand and a meaningful improvement in our unemployment compensation system on the other hand. On both counts the retraining program offered some modest succor.

While this political consensus was being formed, aided by the manifest political sex appeal of the proposal on other grounds, there was apparently little thought being given to any larger dimensions. But somewhere along the line, and rather hurriedly, I gather, the broad charter of Title I and the idea of an annual manpower report on a permanent basis was appended. No one to my knowledge has laid claim to this innovation and the idea was not entirely novel. Rather the credit should be given to a few farsighted individuals strategically placed at the decision-making levels in the executive and Congress who had both imagination and the ability to move quickly when opportunity beckoned. That they were unsure of the ground is, I think, demonstrated by the modest budget of three million that was proposed for Title I and by the fact that supporters in Congress were most eloquent in their silence. Most assuredly if the proposal had been advanced separately on its merits in any number of possible alternative forms we would still be talking about the need for an active manpower policy rather than engaged in the happier task of debating its details.

Hence I would conclude that whatever the future role of manpower retraining whether it grows or disappears, its most strategic and enduring contribution will be found in the piggyback beginning it provided for manpower planning. Beyond this what more can be said about the on-going role of the retraining program. The answer to this would be heavily conditioned by the time perspective we choose and the assumptions we might make regarding the future. Change is predictable and the precise role will shift in response to the changing needs of our economy, our perception of critical social problems and the nature of political reaction to both. Since the future is so highly speculative our wisest course may be to focus on the present. For that reason I'm taking an exceedingly short-run view in this paper and focusing on the immediate past and the near-term future. We have plenty of unsolved and intriguing problems within this time dimension.

Within this context, then, I can discern four possible roles for the manpower training program. Each of these reflect a different intermixture of analysis and policy choice. Some I will mention only briefly for the purpose of raising some questions and so the analysis will be rudimentary. Others, I want to develop more fully because they have not received the attention I think they deserve, and also because they reflect my own personal convictions. Before doing this, however, two points deserve to be made. First, I have not accorded the belief expressed in some quarters that manpower retraining can provide an answer to unemployment the dignity of being designated a possible role. Garth Mangum has already disposed of this. Moreover, if there is any minimal contribution here it can be subsumed as a by-product of other possible roles. Second, I think we all agree that retraining can be only a modest part of an overall manpower policy. It provides certain tools for the implementation of manpower policy. The real questions, then, revolve around the kind of tools and the objectives pursued in their use.

Possible roles so far suggested for manpower retraining are these:

(1) It enables us to move closer to a full employment economy without triggering inflationary pressures than we could by aggregative measures alone.

(2) It offers greater efficiency in the utilization of all of our manpower resources.

(3) It is a method for salvaging those individuals so disadvantaged they are hardly touched by the market economy.

(4) It can be a powerful element in an overall strategy for change. Because of its great flexibility and adaptability we can use it to discover new knowledge, to support promising innovations, and to so alter the goals and structure of existing institutions that their behavior comes closer to meeting our human needs.

For shorthand purposes I would label these respective roles as inflation preventative, economic efficiency, rehabilitation, and the American revolution. The last is, of course, a deliberate exaggeration.

As regards the first two there has been considerable discussion with economists among the prominent participants. This is to be expected since both ideas fall within our normal territory and we would feel most comfortable on this natural terrain. But I doubt seriously whether either is worth much attention at the present time.

Let us take the inflation control thesis as an example. All of us have become aware of the low public tolerance for inflation and this we know has inhibited our aggressive pursuit of full employment. To be told that we can have full employment without inflation is a most welcome message. That manpower retraining can do this sounds plausible. We want to believe we can eat our cake without suffering from a stomach ache and so we have accepted the contention. At the moment, however, the inflation-control role can scarcely be of importance. The interim goal of four percent and the more ambitious one of three percent unemployment seems to retreat further year by year. Even an unreconstructed optimist like Nat Goldfinger would now accept 1968 as the target year and he occupies a lonely position. I grant that this could all be altered by a political decision but for this to happen requires, in my view, a political miracle. Still let us assume this does happen. Would manpower retraining then be a strong deterrent to inflation? I'm convinced we would find that we had borrowed too uncritically from the Swedish experience. In Sweden there has been an effective and continuing commitment to full employment. Moreover, they have developed a sophisticated array of tools and manpower retraining is only a small part of the package. Standing alone it could not be expected to be a strong deterrent to inflation. Moreover, in Sweden the export sector lends urgency to the price stability objective and the close partnership of the labor movement and the government should facilitate its accomplishment. Even so, I am reminded that we owe to the Swedes the familiar term "wage drift" and this may be suggestive of the limited role manpower retraining can play as a slayer of the inflation dragon.

If we shift to the American context then I would suggest that our past inflations have had something to do with the nature of demand shifts and the behavior of the organized sectors of the economy where market power exists. I don't recall any past inflation starting in the unorganized sectors with nurses aids, gas station attendants and office workers leading the parade. Yet these are the areas where manpower retraining has been concentrated. Moreover these are lower-income sectors and presumably we would welcome upward adjustments on a relative basis. Since the panel included two of our most creative contributors to wage theory I hesitate to push this any further. I would note, however, that neither seems to assign much of a role to labor supply conditions in his analysis. And I hope one of them will find the time to give the inflation control thesis a searching analysis before it creeps into our college textbooks and becomes part of our accepted dogma.

On the efficiency thesis I will be similarly incomplete. This is also an attractive concept for economists. Yet for this to be operative in any meaningful sense we would need a full employment economy. Moreover, utilization is more profoundly affected by our educational system and the institutions that operate in the labor market. Hence I would conclude that efficiency might be an appropriate objective for manpower planning. And if this is effective then manpower retraining could be used to wrest somewhat greater output from our then scarce manpower resources.

However, my rejection of this frame of reference does not rest on its present unrealism. Rather I am more concerned by the possibility that we may be deluding ourselves, by the fact that this reinforces some undesirable tendencies in our established institutions such as the employment service and education and by the particular mix in the allocation of our scarce resources this may produce.

For example the original purpose and still the dominant one of MDTA was to equip unemployed workers with the skills and other knowledge required for a particular job destination where proven unfilled labor demands existed. In these terms the formal purpose is being achieved. Placement records are high and in some programs approach a remarkable figure of 100 percent. Moreover, administrators take great pains to explain away any shortfall. New terms such as "no-shows" are being used and the overall dropout rate is compared favorably to the holding-power of the high schools. Then if we apply some simple benefit-cost analysis to the remaining group we find that the training investment may be repaid through the tax route in about five years and we are home clear. The results are just too promising for any legitimate critic to question.

But this conceals more than it reveals. We have failed to take the logical step of establishing control groups so that we could measure the differential placement experience and this surely would be the relevant measure. For example, in San Francisco recently we began a class which was filled with those who had been screened out by earlier tests. Many of these individuals had been interviewed a year and a half earlier and were still unemployed. What if we were to find that the placement record for this group after training is in the order of 40 percent? And then if we also found that for the ordinary programs where the placement record is 70 percent similar control groups had an experience of 65 percent which of the two would we consider most significant? We act as if we are afraid to find out and we simply ignore the "cream of the crop" criticism. I am disturbed by the statistics that indicate that 46 percent of the trainees last year had a high school education, by the fact that 27 percent had been unemployed less than five weeks and by the fact that 34 percent are in the prime age group of 22 to 34 years.

These figures, or worse ones, should not surprise us. The employment service lives and dies by its placement record. To survive it must have job orders from the employer. For this to happen it must establish and maintain a reputation for referral of qualified applicants. In most respects, therefore, it must behave like a personnel office for the employer. And like most of us it will strive for success in its chosen endeavor. This means that the natural inclination of the employment service would be to pick the best applicants for training.

If there are doubts as to this logic I can mention three suggestive bits of evidence. One able welfare director I know has developed a very successful training program and one of the keys to his success is the centering of placement in the agency. Objections of the employment service to a competitive placement agency were eliminated by the simple expedient of letting them report the placements. This is a clever short-run solution and both are to be commended for their ability to avoid a jurisdictional squabble. But surely it ought to be taken as a signal of something profoundly wrong with the perceived goals of the employment service. Another example arose in Los Angeles when I asked the manager of a large central office of the employment service why only 54 out of a total of 14,000 registered unemployed were in training. Among the answers he gave one caught my attention and that was most of the unemployed he considered job hoppers and hence not suitable candidates for training. Finally in San Francisco we have recently started a project to discover how far we can go in developing employment opportunities for the unemployed over age 60. At the start I was told by one high representative of the employment service that our project had dubious prospects because we would find most of this group were psychotics. We've completed our study of the first 100, a carefully stratified sample, I should add, and we haven't discovered a psychotic yet.

So far I have been suggesting that we may be allocating our scarce manpower training resources towards those who need them the least. This, I admit is arguable, and the thrust has not been entirely in this direction. Recent amendments to MDTA, however, reflect a push in the direction suggested by the efficiency criterion. The extension of the training period to 104 weeks and the provision for refresher training for professional workers represent an effort to direct some of our efforts to higher level manpower needs. Certainly this is a promising area. The unemployment rates are lower here, vacancy rates higher, a possibility exists for net job creation and potential contribution to GNP may be for these reasons greater. Moreover, the original act was concerned with underemployment and presumably the gap is larger at the higher manpower levels. If this is where the investment yield is the highest then presumably our resources should go here. In addition the industries such as hospitals concerned with the supply of nurses or the individuals such as obsolete engineers are pillars of our community. Being organized and vocal we can be sure their needs will be met. These are, to borrow a phrase, the deserving unemployed.

But what about the undeserving unemployed? Here we come to my third possible role, namely the rehabilitation or salvage of those unemployed so disadvantaged they could not be expected to find more than a precarious niche in the economy even when we approach full employment. As we look at this lower level manpower we find that if the individual has some physical impairment, such as blindness, loss of a limb, and so forth we have long been willing to equip him for employment. His plight tugs at our heartstrings and we have not turned our back. Vocational Rehabilitation is still far too small but the program reaches about 100,000 a year. More recently we have begun to do the same for those we find to be mentally retarded. But if the person is ambulatory and in possession of his faculties we can easily dismiss him as marginal and then set about describing his characteristics in statistical terms. Thus he may have a record or be recently released from prison and therefore is irresponsible. Or he may never have had much schooling or have learned little and his learning capacity is therefore suspect. Or he may not have learned to dress and talk properly and be lacking in some other requirements of the industrial discipline. Or he may be so untutored that he is unable to find his way to the employment service or to other social agencies. And so it goes. For all we can find refuge in the belief that like the alcoholic he is somehow responsible for his own deficiencies. Lack of motivation is often used as a convenient label.

For this group MDTA has been able to make its most distinctive contribution. Building on some early project findings Congress in its 1963 amendments sought to shift the emphasis of the program towards the disadvantaged. And the later poverty program has the same thrust. With these we are committing ourselves to extending all of the potential of the American dream as far as is humanly possible. Those who have been passed by and who stand outside looking in at our affluent economy are now invited in. Freedom of opportunity, we are saying, not only includes a first chance but also a second and a third if necessary. And this is a commitment we should be prepared to honor even at a net cost to the economy.

MDTA projects have already demonstrated that the effort is feasible. We have rediscovered what we already knew and that is that very few are really unemployable. Even so we have hardly touched the surface. But if we had we would still face a continuing need for programs of this kind. The normal thrust of education and training is towards the production of a product that meets the needs of higher levels of education, or, in the case of vocational education, the needs of the employer. The system becomes standardized and those who fail to meet the requirements are pushed out. This produces little concern as there are always more in the wings to take their place. Little responsibility is felt for the rejects as these are considered someone else's problem. Others may join the corps of the rejects when they are pushed off the farm towards the cities. Still others, such as married women with little experience in the labor market may join them when families break up. Of this I'm sure, we will not lack raw material.

For all of these, and many more, MDTA has proved to be a remarkably successful way out. The explanation is to be found in a unique characteristic of MDTA. Where the disadvantaged are involved MDTA becomes reality-oriented in two directions. The needs of the employer are ever-present and may even be more sharply perceived than is usual for a number of reasons. First, many of the instructors are drawn from the vocation and they identify their continued respectability and acceptance within their peer group with the subsequent job success of the trainees. Second, the Employment Service is under pressure, as I have noted, to produce placement success. They will, as I have found in a number of programs, put pressure on teachers to improve on performance if the product quality proves unsaleable. Third, in a program such as the licensed vocational nurse there are state examinations and these are an absolute requirement. Fourth, employer requirements are normally explored with representatives of the industry during the curriculum building stage and this gives the teacher a clear perception of what is needed. Finally, the personal commitment to success that seems to be characteristic of so many in the program produces in the classroom, as those who have looked at the programs have noted time and again, a continual emphasis on the needs of the employer.

But the crucial difference arises from the fact that the program is also centered on the needs of the trainees. The emphasis on the hard-core and the philosophy of salvage and rehabilitation almost guarantees this. The recognition that more than skill development is required permits trainers and their institutions to push further into the areas of personal development. The flexibility of curriculum enables the inclusion of rehabilitative features. And since the program is trainee-centered, we find teachers modifying the sequence of training so as to strengthen training in areas where weakness became disclosed. Most teachers in these programs recognize that the trainees are multi-problem individuals. This pushes the activity of training well beyond its narrow boundaries. Programs that concentrate on the weaknesses of students and endeavor to develop strengths are not entirely unknown or alien to regular school systems. But they are seldom as thoroughly organized or as well supported as in MDTA. The second-chance philosophy of MDTA is unique. Without outside support it seems most unlikely that this would continue as it is almost inevitable for the local community to view those who don't make it in the regular way as being someone else's problem.

Under the best of circumstances some volume of rejects can be expected and for that reason a permanent vehicle like MDTA would be needed so that someone takes the responsibility for those neglected by other institutions. Given the present size of the program, however, we are engaged in token activity. In a profound sense we are draining off some individuals from a pool of poverty stricken that is being constantly replenished and we may not be reducing the level. In this sense those critics who assert MDTA is merely shifting around marginal workers could be right. But if we stopped here we would be missing the most profound role that MDTA can and does play. Put most simply MDTA permits us to develop a strategy for change that is addressed more to our institutions than to individuals. That is to say the contributions of a particular MDTA project can be greatly enlarged to the extent its impact can be extended beyond that experienced by the flow of trainees passing through at any given time. Here some optimistic by-products can be noted.

First, some of the larger projects, as for example the special youth programs, that are directed to particular poverty communities may be having some desirable impacts on those communities. At least, this is the view of some of the staff people with whom I've talked. Yet this is not a proven finding. Its possibility is so important that this is an area that compels careful research. We might find that the optimism is unwarranted. More important we might discover how the program could be designed so as to have these multiplier effects.

Second, the various kinds of new linkages among existing institutions that MDTA brought into being have had positive results. Most outstanding has been the tying together of the employment service and educational agencies. Frequently abrasive in the early stages the relationship in most areas has become close and often warm. Both groups have learned from one another and I suspect their respective operations have been improved. Similarly there have been positive benefits from the working relations established with public welfare agencies, non-profit groups, employers and unions.

Third, MDTA projects have provided an important development service for many school systems. New kinds of occupational training have been pioneered and some of the successes have been incorporated into the established vocational curriculum. Some examples in being or in prospect in California include office machine repair, coil machine mechanics, reproduction typing, technical illustration and the entire field of subprofessional medical occupations. In the absence of MDTA many of these possibilities would not have been known. Or, if considered there may have been reluctance to take the risk or to undertake the development costs. Hence the existence of a mechanism such as MDTA can contribute to the on-going effectiveness of the vocational and technical education system. The new directions now being taken by the on-the-job training program will be exploiting this developmental possibility in a new area.

Four, MDTA programs because of their built-in flexibility can pioneer in other directions as well. Thus some of the MDTA practices such as day long programming have been picked up and adapted to on-going vocational education courses in some areas. Similarly there have been opportunities to experiment with new teaching techniques, equipment and so on. These have been less exploited than they could have been and the experiments have not been studied and the results shared as widely as should be done.

Five, in partial summary at this point I would emphasize that the secondary contributions of MDTA and possibly the real measure of its success is to be found in its potential for innovation. To the extent the innovation produces change beyond the narrow confines of a particular project this potential becomes realized. The San Francisco older worker project mentioned earlier provides a good example. From the beginning we recognized that if we simply placed two or three hundred individuals in jobs that the project would not be worth its cost. Therefore we emphasized that two other things would have to be done. First, techniques or processes for placing older workers would have to be developed that would be viable in a mass processing agency like the employment service, Second, and concurrently we would need to invent and test new social institutions that could serve the unmet needs of those for whom further employment was not a feasible alternative.

Most of the experimental and demonstration projects and many of the regular ones have had a high potential for innovation. And the new amendments by providing for a further expansion of the experimental and demonstration program expands our opportunities. This may be the time, therefore, for us to look carefully at our previous efforts and find out if we have had the right theory and hence the most effective strategy for change.

Six, our success in penetrating into the area of the hardcore unemployed should encourage us to go further. We ought to be looking at the whole array of the population of the unemployed and in particular at those who do not enter MDTA or drop out early. From these studies we could discover much that could be used to answer the concerns that have been expressed by, among others, the Bureau of Business Education in California regarding the trainability gap. We could also learn something more fundamental. We could begin to measure the dimensions of our problems, calculate the boundaries within which MDTA as now constituted can be expected to operate with profit, and discover the needs of those beyond these boundaries for which different kinds of solutions might have to be invented. There is, for example, in some MDTA projects aimed at the hard-core a high rate of drop-out. Some of these failures ought to be welcomed as they provide a laboratory that should be immediately exploited. If we don't explore the goldmine of new knowledge we can gain from these failures we may end in the all too familiar pattern of simply concluding that those who lie beyond our present reach are someone else's problem.

Seven, the present program because of its relatively small size has not encountered any serious limits in terms of facilities or personnel. Ingenuity as regards the latter has produced surprisingly good results. But if we expand much further we will be exhausting these marginal possibilities. We also know that for best results with the disadvantaged different kinds of training involving all of the behavioral sciences are required. This leads me to suggest that as we begin to implement the regional manpower research centers made possible by the new legislation that we keep in mind the need for balanced growth. Much as I admire our major university research centers I would suggest that they cannot do the job alone. From them may come the research talent and the generals. But we will also need a large number of privates for the operations and for these we ought to look to the undergraduate institutions and in particular to those with a well-developed education school.

Eight, an outstanding finding of our efforts so far has been that MDTA has provided a revealing test of the weaknesses and potential of the employment service. To develop this experience as fully as its importance warrants would take me well beyond the confines of my assigned topic. Let me suggest, however, that our most serious unfinished piece of business is a searching re-evaluation of the functions of the employment service and of its needs and resources. If this occurs then MDTA can be credited with another enormous dividend.

I hesitate to suggest a summary to these remarks. Essentially I have been concerned with developing a point of view that reflects my own particular set of policy choices. To MDTA I would assign the task of working with the undeserving unemployed and expect it to search out all those whose spark of human potential is at a low ebb and that we not choose some where the causes conform to our understanding and ability while we neglect others. Our objective should be to bring as many as we can into our economic mainstream so that they can become citizens in fact as well as name. Implicit in my position, although I have not mentioned it, is a recognition that the civil rights movement has given us the opportunity to move towards this objective along a broad front in the case of our neglected minorities. This alone is a massive task and

well beyond our present resources. Hence I have suggested we need to husband these resources carefully. Service to an individual or group is important in its own right but our targets should be the larger game. By careful strategy we can use this retraining vehicle to sponsor change wherever our labor market institutions fail to meet our human needs. This in a modest way I would term a revolutionary objective. Yet it is pragmatic, non-violent and hence within the American tradition.

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INDUSTRY'S ROLE IN JOB CREATION AND TRAINING

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When I was asked to participate in this conference, I was told that the participants should study the new 1965 *Manpower Report* of the President with a critical eye to see what we might be able to contribute toward evaluating the Report's proposals for dealing with unemployment.

I read the Report, trying to keep in mind how its findings and recommendations relate to the activities, interests, and obligations of private industry. It is only natural that the Report emphasizes the steps which the federal government can take to deal with our problem of chronic unemployment; and, although there are some statements about the importance of cooperation with industrial employers and other private organizations, the Report itself makes no specific suggestions as to the steps which industrial employers can take to contribute to the solution of this most difficult and complex problem.

However, I feel that private industry does have a role in this effort; a role which may be difficult to define, but which is none the less important; and I should like to make some suggestions as to what it might be. In doing so, I think we should maintain the distinction made earlier here between steps which can be taken to create jobs and programs which are intended to train people.

Before going into specifics, I should like to make some general comments on the report as a whole. First, I find that its emphasis on education and training is highly constructive. The concept that each person should have an equal opportunity to succeed and that education is the great equalizer of opportunity permeates the Report and is in the best American tradition.

Second, I think the Report's predictions on the direction of expansion of job opportunities are probably correct. It seems only reasonable that most of the new jobs which will be created in the next several years will be in the service industries and in the public sector. If the Conference wants a definition of the term *service industries*, I would define it as those in the private sector who do not produce goods. It is reasonable to predict, as does the Report, that private industry's role as an employer is likely to decline because of shifts in demand and technological change, and at the same time public employment and employment in the service and recreation industries will grow.

As I look at my own industry, I foresee shifts in the kinds of employees we will require in coming years. Indeed, ever since World War II there has been a continuing increase in the proportion of clerical, managerial, and professional employees in the steel industry's workforce. Still speaking for my own industry, as production increases I do not foresee any substantial increase in the total number of jobs in the industry. Whatever increase there may be will be in the white collar sector and it is likely to be counteracted by declining opportunities in production jobs. New processes, such as the basic oxygen furnace and continuous casting, are only now beginning to make their influence felt in the American steel industry and they will cause a substantial decline in the labor component of a ton of steel.

It is only fair to say that the same outlook probably exists in a wide variety of other basic industries. In such industries as agriculture, mining, rail transportation and many types of manufacturing, a combination of increasing productivity and a stable or declining demand is clearly going to cause a decline in the number of available jobs.

We are only now beginning to confront the employment effects of electronic data processing. Experience in several federal agencies, however, indicates that an enormous volume of work can be handled with very few employees when the processes are computerized. Studies of employment in the Veterans Administration and the Internal Revenue Service, among others, confirm this. The fact that federal civilian employment has remained stable with an increasing population, and even though the functions of the federal government continue to expand, reflects the employment effects of electronic data processing on large-scale clerical operations. I expect the same results to show up in the large private white collar industries such as banking and insurance.

However, the situation is radically different when we consider the employment outlook at the state and local government level and in private nonprofit organizations, such as colleges and hospitals. The kinds of skills needed by these employers are in short supply and are likely to continue to be scarce as the population increases and the public's demand for their services rises.

The American public has become acutely aware of its growing needs for education and medical care. In both fields, adoption of the most modern methods requires the employment of more, not fewer, people; and both of these growth industries are largely outside the for-profit sector of the economy.

Secretary of Labor Wirtz has mentioned on several occasions that each generation is symbolized by a new industry and that the new industry of the 1960's may well be the education industry. If we are to create enough jobs for the war babies of the 1940's who are now entering the labor force, we will need more than one major new industry. As Mr. Mangum mentioned this morning, in addition to education and medical care, it seems that recreation and conservation, housing and urban renewal, and public transportation will be fields in which substantial numbers of jobs will be opened up. I note that a study of public employment in New York City in 1963 found that one out of five of the professional level jobs authorized by the budget of the City of New York were unfilled.

There are not enough highway engineers, public health workers, recreation directors, and other such trained people to take care of our increasing urban population.

The responsibility of private industry for job creation is not unlike the responsibility of government in the same field. Private industry has a continuing obligation to create new jobs by making available to the consumer new products and new services. Its responsibility is to be creative; to see an opportunity to produce a product or service before the public is even aware that it would like to have that product or service available. A natural consequence of creativity in business is the development of new and often exciting jobs.

In the years since World War II, several completely new industries have grown up and have provided services and products to consumers and jobs to workers. Let me remind you of a few, and you will be able to think of many more. There are, for example, the motel industry, paperback books, quick-frozen foods, and those boons to business, office copyers and business machines. You can easily add to my list. The more difficult problem is to think of something which is not in existence, but which we all desperately need—or at least will want when we know of it.

President Johnson has asked the Secretaries of Commerce and Labor to begin a program to increase the number of jobs available in the service trades. I think this is a step in the right direction. It is important that these occupations, which are accessible to less well educated and less skilled job seekers, be brought into the twentieth century and given the attention, the status, and the respect they deserve.

I should imagine there is plenty of room for the creative businessman who can develop more efficient ways of finding, hiring, and training qualified appliance repairmen, qualified and efficient household help, and perhaps other service employees as well. As the President has so well pointed out, the labor market in these fields functions very badly. It frequently happens that a prospective employer who would like to have help finds it much easier to do the work himself. This is often not a question of money, but simply a question of the obstacles in the way of both the prospective employer and the prospective employee who have no efficient and reliable method for finding each other.

Part of this problem could be alleviated by improving the functioning of the state employment services. Part of it is being helped by some of the training programs set up under the Manpower Development and Training Act. I still feel, however, that somewhere in this area there are opportunities for private enterprise to provide a valuable service.

A second way in which I think major private employers can contribute to the creation of jobs is to encourage early retirement of their older workers. Very frequently the older and less efficient industries and establishments of our society are handicapped by having older and less well trained workforces. Many of their employees received their education and training thirty or forty or fifty years ago and much of it is out of date. If we look at their capabilities realistically, we must realize that often there are not enough years left in their normal working lives to make retraining, certainly not extensive retraining, feasible. To encourage these people to retire early and to provide them with the economic means necessary to do so, is often essential if an employer wishes to secure a better educated and better trained labor force. At the same time, such a policy serves to open up opportunities for the fastest growing part of our population, the young people between sixteen and twenty-five. Unemployment at these ages probably contributes more to social unrest, delinquency, and crime than at any other point in a person's lifetime.

A third aspect of job creation in which employer policies and activities can have considerable influence is the field of manpower planning and recruiting. An employer's recruiting policies should be both fair and realistic. It is my own opinion that employers are frequently too rigid in establishing their job requirements. They seek high school graduates even though a high school diploma may not necessarily be related to an applicant's ability to do the job in question; or to take an example from the practices of college recruiters, we find that they often have clearly in mind the age, sex, and specific type of training which they are looking for in a prospective employee. Since those firms which recruit at our major colleges are frequently agreed on these characteristics, they succeed in bidding up the starting salaries of a small group of highly desirable applicants while at the same time ignoring the potential of other applicants whose characteristics do not exactly fit into their preconceptions. This kind of recruiting creates artificially high salaries and artificial shortages for one small group at the expense of others.

At the other end of the scale, the employer who is willing to screen applicants on an individual basis rather than adopting arbitrary yardsticks and who is willing to expend some effort in training these people is likely to find it much easier to fill his jobs even in an area of labor shortage.

Intelligent recruiting and staffing is not perhaps the same as job creation, but it is consistent with the philosophy that to place an over-qualified person in a job is a waste not only of the talents of that person, but also of the less qualified person who could hold the job.

None of the three points I have mentioned have directly to do with the creation of jobs. However, each of them is desirable for its own sake and each of them will create jobs as a by-product. I certainly would never adopt a position that an employer should deliberately conduct his business in such a way that it requires more rather than fewer hours of human labor to get the same amount of work done. The purpose of the machine is to eliminate work. The more work it eliminates, the greater its success, and there is no purpose in creating jobs for their own sake. A job is only as valuable as the product or service which its creation makes possible. And when the product or service can be provided in some other way, the job is no longer of value. At all costs, however, we must avoid falling into the trap of thinking that the jobholder is therefore of no value.

Let me give you one example. As we all know, there are thousands of unemployed coal miners in the area called Appalachia. They are unemployed because coal mining is no longer an occupation requiring only a strong back, a pick and shovel, and a mule. Instead, huge underground continuous mining machines bore through the earth, eat out the coal and transport it to the mine mouth, where it is loaded on to unitized trains and sent to the cities; or the coal is made into electricity at the mines and only the current is transmitted.

Because a radical change in the technology of coal mining has resulted in the displacement of these miners, we are dismayed. We should not be. Would we really choose to send them back into the mines with pick and shovel to confront the hazards of occupational accidents and disease? Do we really remember what it used to be like to be a coal miner? How many of us here ever really knew?

No, the real problem is not that these people have no job but that they have no income. There was no intrinsic virtue in this work. Its only virtue was that it fed the worker and his family. And now they must be fed in some other way. Surely this is not an insoluble problem.

I should like to turn now from job creation to training. In the whole field of training and education, which is so strongly emphasized in this year's *Manpower Report*, industry's responsibilities have much in common with the responsibilities of all interested and concerned citizens. It is of the utmost importance that private industry willingly support our public school systems and our communities' efforts to improve them. The schools need not only our financial support, they need our moral support, and they need our active cooperation. The taxes which industry pays to support schools are repaid to it many times over in the availability of a well educated labor force.

Aside from this very general objective, industry has certain specific responsibilities toward public education in fields in which it alone can provide needed education and facilities. Retraining programs under the Manpower Development and Training Act—both the institutional programs and the on-the-job programs—serve no useful purpose if they are conducted in ignorance of the demands of prospective employers. We have a continuing obligation to make available to those in charge of these programs, as well as all kinds of vocational and technical education programs, a continuous flow of accurate information on the kinds of jobs which will be available in our plants and offices.

Furthermore, frequently private employers are the only organizations which possess the technical knowledge and the physical equipment necessary to provide certain types of training. Cooperative arrangements between employers and school are highly desirable. Not only can experts from industry offer courses and act as part-time teachers in the schools, it is also frequently feasible to bring students into an industrial environment for part of their training.

Cooperative work-study programs provide one means for industry to contribute to education, and they should definitely be encouraged. I am certain, however, that educators and businessmen working together can think of many other possibilities if they do not permit traditional restraints to inhibit their creativity.

Not only can industry cooperate with the educational efforts that are conducted by public agencies at all levels, it also engages in substantial training independently. One estimate is that in any given year there are three million employees in private industry who receive some kind of training during the year. In our own Indiana Harbor Works plant which employs approximately 20,000 people, there were 14,300 who received some kind of training during 1964. Of these, 515 engaged in external training programs, programs conducted by educational institutions for which the employees' costs were paid by the company. Another 7,500 were engaged in plantwide internal training programs ranging from brief first aid courses to extensive courses for middle and higher management. The remainder were in training for specific occupations in the mill.

Training efforts of this magnitude are not unusual in the steel industry or in many other industries. As occupational requirements change with changing technology, management is under a duty to offer training to its employees so that those who are displaced from discontinued jobs have an opportunity to become qualified for the new ones. In the steel industry, the union has become quite concerned that adequate training is made available to its members and has developed an active interest in what, until now, has been almost purely a management concern, the eligibility of employees for entrance into training programs.

We, in common with other employers, often confront a problem in encouraging our employees to take advantage of the training programs we now offer. It is often difficult to find enough qualified young men who want to spend the time and effort necessary to complete an apprenticeship in the skilled trades, for example. The dropout rate in such programs is entirely too high. And I am afraid that if entrance into training programs becomes entirely a matter of right based on length of service with only a minimum of qualifications, we may end up with the wrong people taking advantage of the programs. It is essential, in my view, that management retain some control over this field, if only to have the opportunity to ensure that its training time, talent, and money are not being spent on people who are not really motivated and committed to the sacrifices which technical training often requires.

This is not to say that management's judgment in selecting trainees who can and want to take advantage of their opportunities is infallible. People in industrial training, along with educators in other fields, have much to learn about how to stimulate the desire to learn and how to motivate students.

As I suggested earlier, extensive retraining for older employees is often uneconomical. Sometimes the older employee's basic education is deficient and his retraining would involve making him basically literate. In these cases, I am persuaded the best answer is early retirement. We must remember that three-fifths of all our adults in this country have less than a high school education and the jobs that are becoming available require at least that and sometimes much more.

On the other hand, training for young people who have their working lives ahead of them is clearly a good investment for all concerned. MDTA programs should be made easily available to these people, and we should continue to expand and improve apprenticeship programs in the skilled trades and be sure they are open to members of minority groups.

Many observers have suggested that in coming years it will be necessary for most adults to change jobs and occupations several times during their lives. Continued employment will require continuous education. We are already seeing a growing tendency to combine education and employment in a variety of patterns. No longer do we see the rigid life pattern in which a person is a student for a fixed period of years, then stops his studies and begins his working life. Instead, to an increasing degree, people work while they are going to school and they go to school while they work. This occurs at all levels from high school to well beyond graduate school and is, I believe, the way of the future.

Paul Jacobs has discussed the extent to which one's occupation, or one's job, becomes an essential part of his concept of self. If, as I believe is happening, both his job and his occupation will have to change during a man's working life—not once or twice but several times—if he is to remain in the labor force, he is going to find it necessary to develop a concept of self and a feeling of his individual worth which is not dependent on his occupational status or his job with a particular employer. How this can be done I do not know, but if it is not done, many workers who think they know who they are, why they are doing what they are, and why they have some value to their society, are going to be in for a bad shock.

In conclusion, it is my belief that with respect to job creation, the responsibility of management is not to create jobs as such, but to provide the goods and services needed and wanted by the consuming public and to use the new technology to relieve the drudgery and the burden of routine work. As a consequence of these activities, jobs will be created and other jobs will be destroyed. Management does have obligations to ease the problems of change and transition, but no business has an obligation to create jobs merely for the sake of keeping people busy.

With respect to training, management's unique responsibilities lie in the areas in which it has unique information, or facilities, or skills. The basic, and much of the specialized, education which will be needed in coming years must continue to be a public responsibility, but management has a continuing duty to provide the necessary information for educators to make intelligent plans; and further, it has an obligation to cooperate with educational and training organizations and with the state employment services in training and placement efforts. If management does not provide these people with early and accurate information about the appearance and disappearance of job opportunities, their efforts are bound to disintegrate into a massive boondoggle.

11

CRITICAL ISSUES IN THE DEVELOPMENT OF VOCATIONAL EDUCATION

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First, what are we talking about—what is "vocational education"? To most Americans the words suggest a set of job-related courses taught in public high school. Those of us who grew up in rural areas or even medium-sized towns associate "vocational education" with the agriculture, home economics and commercial curricula offered in comprehensive high schools. City dwellers may associate "vocational education" with separate high schools offering courses for students preparing to enter certain skilled trades like metal work, carpentry and typesetting.

Vocational education in this narrow sense, however, is only one of the many channels through which Americans obtain training for work. Apprenticeships, special vocational schools, technical institutes, company training courses and just plain on-the-job experience are alternative sources of occupational training.

A recent Labor Department survey gives some indication of the relative importance of various types of job training in the present labor force.[1] Labor force members aged 22-64 with less than three years of college education were asked about the types of occupational training they obtained. Over half claimed to have had no formal job training of any kind, and about seven out of ten said they had no formal training for their present job—they just picked up their skills informally on the job.[2] About 40 percent of those who reported some formal training (used or unused) gave high school as the source. Special schools, the Armed Forces, apprenticeship, company schools, correspondence schools, technical institutes and junior colleges were mentioned by others.[3] Younger persons were considerably more likely to have had some type of formal training than older persons, but an appreciable group reported formal training undertaken fairly late in their working lives.

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[1] U.S. Department of Labor, *Formal Occupational Training of Adult Workers* (Manpower Automation Research Monograph, No. 2), December 1964.

Clearly, any useful appraisal of the economic importance of job training and the part it can play in promoting growth and high employment must deal with more than high school vocational education; it must deal with the whole range of ways by which people acquire occupational skills at all ages.

Another thing is clear: in the next few years a larger share of the nation's resources will have to be devoted to training and equipping new workers than has been devoted to this activity in the recent past. As we all know, the babies of the 1940's are just beginning to pour into the labor force. There are so many of them that at first glance their economic prospects seem dim. But it should be remembered that the generation ahead of them on the seniority ladder is thin. Middle-aged workers, born in the depression will be relatively scarce for some time and young people should be able to move into positions of responsibility fairly fast if they have the requisite training.

More resources will also be required for retraining workers displaced by technological change. The pace of technological change may not have increased, but the public has definitely become more aware of the human costs of change and the possibilities for mitigating these costs through retraining.

There have been periods in American history when new entrants were pouring into the labor force at tremendous rates—as a result of previous high birth rates and large-scale immigration. There have been other periods when rapid shifts of demand necessitated large-scale training and retraining, as at the beginning of World War II. But during the 1950's we got out of the habit of devoting major resources to training, because new entrants were trickling into the labor force at such slow rates. We will have to readjust to higher rates of resource use for training and devote more attention to efficient use of training resources.

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[2] *Ibid.*, pp. 17 and 34.

[3] *Ibid.*, p. 11.

I wish I could report that economists had taken a thorough look at the whole system of vocational training in the United States and were ready with specific recommendations for its improvement. I wish I had a fistful of statistics to throw at you, including the effects of certain types of training on unemployment and earnings, and the costs and benefits of alternative training systems. Perhaps I can come back and make this kind of talk in about five years, but right now it is not possible. The plain fact is that economists have ignored the whole subject of vocational education almost completely and are just beginning to recognize its importance. The best I can do today is to point out the main economic issues and some of the considerations that seem obviously relevant to resolving them.

There seem to me to be three main questions to be answered:

—how much training should the labor force have?
—where should training for work occur?
—who should pay the cost?

I would like to discuss these three questions and then turn to the policy question most relevant to this conference: how can vocational training help reduce unemployment?

The question of how much training the labor force should have is really a question about the desirable level of investment in vocational training relative to other types of investment. The treatment of education and training as forms of investment—investment in human capital—is a fairly new feature of economic thinking, but it is proving to be a useful one.

Vocational Education

An "investment" is a use of current resources, not for current consumption, but to increase future productivity. General education (literacy, for example) contributes to productivity, but it also makes life more enjoyable. Hence, general education has to be regarded as a mixture of consumption and investment. But vocational education, almost by definition, is undertaken to enhance future productivity, not for fun. It is clearly classifiable as an investment.

Moreover, the pay-off on investment in vocational education should not be hard to measure. The pay-off to the individual is in the form of higher wages than he would have earned without the training. Since these higher wages reflect the individual's increased productivity, they are also a measure of the increase in national output attributable to his vocational education. If we have information on earnings at successive stages of life of similar persons with and without vocational training we can use this information to compute a rate of return on vocational training. A high return—relative to other investments—indicates that expansion of vocational training would be a productive use of resources. A low rate is a signal for retrenchment.

Clearly it makes little sense to compute rates of return on training in general. Even if we knew that workers in general were receiving too little training we would still need to know which particular types of training most need to be expanded. What we need for planning purposes are estimates of rates of return on costs of training in particular skills or groups of skills.

Such estimates are not easy to make or interpret. Besides the serious problems of obtaining data, there are at least three reasons for proceeding with caution in planning vocational education on the basis of rate-of-return estimates.

First, available statistics on actual costs per student of existing training programs may not reflect the true costs of adding more students to efficiently run programs. The existing programs may, for example, be badly organized or too small to be efficient. A new program may have very high initial costs in the first year which should not be counted in an estimate of the rate of return to the program in future years.

Second, there may be hidden benefits to vocational education which are not reflected in the incomes of the graduates. Perhaps, if a high school student were not in a vocational program he might drop out of school altogether and his chances of becoming a delinquent might be increased. In general, computations or rate of return derived from income alone are more helpful in comparing differences in various types of programs than in comparing some vocational education with no education at all.

Finally—and most important—estimates of future income of the graduates of a program have to be based on the income and employment experience of past graduates as derived from surveys or follow-up studies. But the demand for specific skills or occupations may change radically in the future. Projections of employment opportunities and wage differentials are never highly reliable. The longer the time horizon and the more rapid the technological change, the less reliable manpower projections become.

I suspect—although many of my colleagues might disagree—that unreliability in projections of specific manpower needs is one of the prices we must pay for technological change in a free-market economy and that fancier projection methods will not greatly improve the reliability of these projections, except, perhaps, in the very short run. I also suspect that reliable long-range (say 10-20 year) projections of skill needs may not be as necessary as is sometimes supposed.

I have heard educators say things like this, "Why should we train students now in skills that may be obsolete in 10 or 15 years? We don't need short-run projections; we need to know what skills will be required for the jobs of the 1980's. If the economists can't tell us this, we had better abandon attempts to teach specific skills and give only very general training."

It would certainly be fun to have a good crystal ball, but I am not sure it would change curriculum decisions as much as these educators suppose. It is not obvious that it would be economically more advantageous to train for the skills of the 1980's right now than to train for present skills and retrain later. It is also not obvious that a man who has one skill is less able to learn a new one than a man with general background. We need much more research on the transferability of knowledge and skills.

It may be that educators should abandon the hope that they can give people skills early in life which will carry them through a lifetime "career." Except in a few professions and skilled trades, most people do not have "careers" anyway. They have a series of jobs, often quite unrelated to each other. Prolonged absences from the labor force are common, especially for women. Educational planning may be improved if we can accept the idea that periodic retraining is normal and desirable.

I am not arguing that we should stop trying to make long-range occupational projections. I am only saying that the inevitable uncertainty of such projections should not be used as an excuse for inaction on vocational training or for failure to utilize information about skill needs in the present and the near future.

In view of all these pitfalls one might ask whether it is worthwhile to try to estimate rates of return on vocational training programs. I think it is and that the process of doing so—even the collection of hitherto nonexistent data on costs of training and income and employment histories of trainees—will introduce more rationality into the planning of vocational education than has been evident in the past.

It is not hard to point to past and present irrationalities in the planned sector of the vocational education system (i.e., high school vocational curricula), although it must be remembered that the planned sector is relatively small. Beginning with the Smith-Hughes Act of 1917 the federal government gave state and local governments incentives to offer courses in agriculture, home economics and "trades and industry." Later cooperative programs in distributive education and practical nurse training were added to the list of federally supported curricula.

The federal programs put heavy emphasis on agriculture. In 1962 there were 823,000 students (more than any previous year) enrolled in federally supported courses in vocational agriculture. Vocational agriculture accounted for roughly a third of the enrollment in and expenditure for federally supported vocational education programs (excluding home economics).[4] In view of the fact that agricultural employment has been declining, not only relatively but absolutely, for a long time this degree of emphasis on training for agricultural jobs hardly seems rational.

The Vocational Education Act of 1963 is far more flexible. It provides greatly increased support for education designed to prepare students for "gainful employment" in almost all occupations and it amends the previous legislation by broadening definitions and allowing switching of funds between categories.

It is not obvious, however, that shifting the decision-making on vocational education back to the local and state level will lead to decisions in the national interest if no guidance is given to state-local authorities in setting up curricula. The tendency of local school boards—quite naturally—is to concentrate on training for local industry. At best, local planning is based on surveys in which area employers are asked to indicate how many job openings they will have of various types in the next several years. Especially in areas of heavy outmigration, curricula based on local industrial needs may fail to prepare students for jobs they will actually hold.

Moreover, surveys of openings or projections of employment trends (even on a national level) are only part of the data needed for planning vocational school curricula. Because an occupation is expanding does not mean courses in it should be taught in high school. To make this decision one also needs to know whether people with formal training for this occupation really do have better employment experience and make higher incomes than people without formal training. One also needs to know the cost of providing training in schools compared to costs of alternative arrangements.

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[4] U.S. Department of Health, Education and Welfare, *Digest of Annual Reports of State Boards for Vocational Education, Fiscal year ending June 30, 1962*, Washington, 1963, pp. 21, 26.

This brings us to the second major question—where should training for work occur. On-the-job training in formal or informal apprenticeship programs, private vocational schools and technical institutes all offer real alternatives to vocational education courses in public schools.

In the realm of general education any debate over the existence of public schools has an aura of fantasy and is not taken seriously by practical people. It is impossible to point to any country which has achieved a high level of literacy and general education without compulsory attendance laws and free public schools. One can, however, find industrial countries with high growth rates and low unemployment in which training for work is conducted almost entirely outside the public school system. Germany, for example, relies mainly on an elaborate system of apprenticeships and company training programs for students who have completed the required amount of general education in school.

In the United States we have considerable experience with alternative types of training for work. Vocational courses have been a regular part of secondary school curricula for many years. Cooperative programs have been tried in some occupations and in some school systems. Formal apprenticeships and company training programs are usual in some occupations and less formal on-the-job training in others.

Yet almost none of this experience has been analyzed with a view to assessing relative cost and effectiveness of alternative systems. At present, there is little basis for answering the question: what kinds of training are most efficiently done in schools, which on the job and which in cooperative programs? One can only point to some general considerations which enter into the choice between school courses and on-the-job training programs.

Where the training involves learning to operate expensive equipment there are advantages to doing it on the job (or at least on the premises of a going commercial or industrial establishment). In general, it does not pay for schools to invest in locomotives, earth-moving machinery, big computers and the like, especially since instructional equipment is generally in use only a few hours a day. Moreover, when the rate of technological change in an industry is high there tend to be advantages to on-the-job training. Both teachers and equipment may be subject to rapid obsolescence, and the school may quickly find itself turning out students whose training is largely irrelevant to the work situations they will face.

Another obvious consideration is the ratio of manual skill to theory required in the occupation. Where theoretical knowledge or understanding of a process is crucial, there may be strong advantages to classroom instruction and to the use of equipment especially designed as training devices.

The efficiency with which a particular skill can be taught is certainly not the only consideration in choosing between classroom instruction and on-the-job training. For example, there are other arguments for vocational training in the schools. It may be desirable to integrate vocational and general education. Vocational courses may supply the potential drop-out with motivation for staying in school and learning more than a specific job skill. It is easier in a school context to make the program flexible, to teach skills useful in several different occupations, and to give the student an opportunity to learn about and transfer into a different course or a different curriculum. It may be easier in a school context to make sure that opportunities are open to students from all backgrounds and that young people with special handicaps (including a background of poverty and poor previous education) get the help they need. Finally, school courses do not have to be tied to the needs of local industry. This may be especially important in a declining area where students need to be trained for jobs in other parts of the country.

Our third major question—how the cost of training for work should be shared between students (workers), employers and taxpayers—seems at first glance to be closely related to the previous question. It would seem that if training takes place on the job, the employer pays; if it takes place in private schools, the student pays; and if it takes place in public schools, the taxpayer pays.

But the real situation is more complicated. Even in a free public school the student usually assumes part of the cost of his training. If he is beyond the age at which his attendance is compulsory and if he has a reasonable chance of finding a job without further training then he is paying a price for his training in the form of forgone earnings. Similarly, an apprentice or company trainee normally forgoes some income to obtain training which will pay off later. In accepting lower earnings in order to get training the trainee is sharing in the cost of his training. And if a student is paying tuition to a private proprietary vocational school his forgone earnings must be added to the tuition to give a true picture of what his training is costing him.

Hence, the question is not really: should the student pay anything? He always pays something. The question is: how much? I suspect we will hear the question asked with increasing frequency in the next few years, even with respect to vocational programs offered in public institutions, as emphasis shifts to technical education at the post-secondary level. This type of training is expensive, but the rewards to the student may be high. Students may be willing to pay substantial tuitions for such training, especially if they can finance the cost by borrowing. Since the "free" tradition is not so strong at the post-secondary level, public as well as private institutions may decide to charge tuition in order to offer expensive technical education which the community may be unwilling to subsidize heavily.

In judging whether there should be public subsidies of vocational education economists are inclined to ask first: what would happen without subsidies? Would there be underinvestment in vocational education or a maldistribution of the training obtained?

These questions have not been thoroughly explored, but there is certainly some reason to think private incentives are insufficient by themselves. Big companies with highly specialized equipment often have ample reasons for engaging in elaborate training programs and clearly many of them do so. For the small company, store, or office, however, the cost of training employees can be prohibitive. The cost per trainee may be high when there are few of them, and the risk of losing trained employees to other enterprises may be great. The cost of training can be partially shifted to the trainees through lower wages, but minimum wage laws and similar customs make full shifting impossible. In this situation private vocational schools may spring up to offer training which small companies cannot afford to give—private secretarial schools are a good example of this phenomenon. Workers have an incentive to pay (both in the form of tuition and forgone earnings) for training which will raise their future wages, but they may be unable or unwilling to do so. Young people have limited resources; older workers have families to support. They are unlikely to be able to obtain loans to finance these investments in future earnings, and they may not want to risk the indebtedness. Hence, they may fail to obtain training which would be in the national interest as well as in their own interest.

This economic rationale for subsidizing vocational education is *not* necessarily an argument for heavy reliance on vocational education courses of the type traditionally offered in public secondary schools. Where there are reasons to think on-the-job training or courses offered on a work site are more efficient, such training could be subsidized directly. There is room for a wide variety of combinations of school-and-job training programs. Imaginative experiments and objective evaluation of the results might lead us to effective new methods of training workers for future jobs.

We have already noted that incentives may be a problem even in public school programs when support or decision-making is primarily local. Communities may be unwilling to support training for jobs which can only be found elsewhere. Hence local support and local decision-making may lead to substantially less investment in training for work than would be undertaken if decisions were made (or incentives offered) by some larger unit. The large amount of migration of American young people makes it imperative that we find ways of transmitting the skill needs of one area to the curriculum planners of others.

Up to this point, I have said nothing about the major subject of this conference: unemployment. What can vocational education do to reduce unemployment?

Where unemployment is truly structural it is clear that vocational education facilitates reemployment. The exhaustion of a natural resource, the migration of a plant or an industry, a shift in technology or a fall in demand for a particular product all may leave workers without marketable skills even though jobs are available in expanding areas or industries. Public subsidies of vocational training, together with public subsidies of the costs of moving and searching for work may be urgently needed and may be cheaper than welfare, relief or artificial subsidy of a declining industry.

But where demand for labor in general is inadequate, it is hard to see how vocational education by itself can do much more than spread the unemployment around. It is true that unemployment rates are generally highest for persons with the least skill and education (vocational or general). Moreover, recent studies show that people with very little education are considerably less likely to be unemployed if they have had some formal vocational training.[5] It is also true that vocational training can be shown to lead to reemployment for a substantial proportion of the unemployed workers who get it. But it is hard to know how many would have found employment anyway and how many displaced other workers with less training who would have had these jobs.

This certainly does not mean that increasing vocational education is a waste of resources in an economy operating at less than full employment—far from it! Part of the unemployment in a growing and changing economy is presumably always "structural" and this part may be reduced by training programs. Upgrading the labor force certainly contributes to productivity and growth. Moreover, simply spreading the unemployment around may have important benefits in itself. Prolonged unemployment is demoralizing and the concentration of unemployment in particular groups (e.g., Negroes) leads to hopelessness and serious social problems.

Vocational education should be viewed as one facet of a campaign against unemployment—a campaign which cannot be expected to have much success unless aggregate demand for labor is kept high. When demand is high—as, for example, during World War II—the problems of vocational education do not loom so large. In a tight labor market incentives for firms to give training and workers to seek it are great. Firms lower their formal requirements and snap up workers they would have considered "unemployable" in a looser labor market. A lot of "vocational education" gets accomplished very rapidly without public intervention.

To sum up, one thing that is clearly wrong with vocational education is that we know so little about it. We badly need information about costs of alternative methods of training and about the income and employment histories of graduates. We need far more experimentation with new methods of teaching, new ways of combining classroom instruction and on-the-job

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[5] U.S. Department of Labor, *Formal Occupational Training of Adult Workers*, p. 8.

training, and new methods of financing occupational training. We also need to examine the effects of local decision-making on the distribution of educational resources and to develop methods of transmitting the skill needs of the nation to local schools and individual students.

12

DISCUSSION OF PAPERS ON SELECTIVE MANPOWER POLICIES*

ARTHUR Ross, John Dunlop, Eli Ginzberg, Marvin Friedman, George Shultz, and Gerald Somers were the official discussants of the papers on selective manpower policies. Many of the points summarized below, however, were made by other participants.

I. *The Goals of Selective Manpower Policy*

Much of the discussion emphasized the importance of the social and political goals of selective manpower policies. Even in times of prosperity, many people in the U.S. are unemployed or underemployed. In the past they were concentrated in rural areas or in the chronically depressed Southeast. Now unemployment is concentrated among teenagers and Negroes, and with the shift in population (especially Negro population) to the cities, the social and political aspects of the problem have become more obvious, and probably more serious. The conference participants agreed that the present levels of unemployment in this country are socially and politically intolerable.

Selective manpower policies also have economic purposes. An often cited economic justification for training programs is that they permit the economy to approach closer to full employment without excessive price increases. This justification was challenged on two counts. First, for training to minimize wage increases would require that the wages in each labor market be determined by supply and demand in that market; but most labor economists reject such a naive theory of the determination of wages. Second, the occupations for which training is provided, e.g., service station attendant, practical nurse, and typist, are not those that have been blamed for wage-push inflation.

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* This summary was prepared by Williams S. Peirce.

Discussion

II. *Training for Jobs*

In the discussion of formal pre-employment vocational education, the central issue was how to ensure that the schools will teach the skills demanded in the labor market. Where the graduates of vocational schools are locally employed, local employers may help shape an appropriate curriculum. But, many young people attend school in areas from which they must move if they are to find work. How can the job requirements of an expanding area influence vocational curricula and guidance counseling in a declining area?

Three issues seem to be significant in this discussion. First is the question of the feasibility of making forecasts of manpower needs, which is not dealt with here. Second is the question of the necessity or usefulness of such forecasts, which will be discussed below in connection with flexibility. The third question is the desirability of informing or influencing the policy makers in vocational education.

To deal with the third issue first, it was argued that forecasts of manpower requirements should not be published (except for making known those occupations in which an absolute decline is expected). In the absence of central control, local policy makers might over-react to forecasts of surpluses and shortages, thus not only defeating the forecast but even risking a greater disparity between supply and demand. This seems unlikely for two reasons: First, the vocational education system never reacted too rapidly in the past, why should we suppose that it will do so in the future? Second, a school (if it reacts at all) will presumably react to projected conditions in the labor market to which its graduates traditionally migrate. Provided the projections are made by regions, even a significant amount of over-reaction in particular areas may not imply large discrepancies in national supply and demand.

If the vocational education system will not adapt to new information, manpower projections are useless. If individuals adapt easily to new occupations, detailed occupational projections are unnecessary. Both the system and the individual would adapt to change more readily if vocational schools taught basic skills and general knowledge. Just prior to completion, each student might take an intensive course designed to provide a hiring advantage in a specific occupation. Experience under the MDTA has shown that, in many cases, this would take only a few weeks.

The matter of placement rates under MDTA programs received some scrutiny. Some thought that the current placement rate of approximately 75 percent of all who complete training is too high. The presumption is that the programs must still be training those who are most likely to get jobs without any training. Another viewpoint is that the placement rate is tragically low. It is wrong to build a person's hope and self-confidence in a training program and then turn him loose on the streets still unemployed. It is, of course, also possible that placement rates are high because the programs or subsequent placement efforts are so good that even the least likely trainees are made employable.

A large part of all vocational training is provided by employers after the worker is hired. When the employment relationship is casual or temporary, however, it is frequently not worthwhile for the employer to provide training. The discussion emphasized the potential importance of the provisions of MDTA permitting subsidies for training on the job. This separates the question of who should pay for training from the question of where can training most efficiently be performed.

III. *The Relationship of Minimum Wages, Training Allowances, and Jobs*

In some cases, persons who have completed MDTA training have been placed in jobs paying less than prevailing training allowances. This creates resentment and opposition to some MDTA programs. Some conferees suggested that the solution is to raise the minimum wage. Others vigorously opposed any increase in minimum wages. Several of the economists present were inclined to dodge the issue by saying that the raising of minimum wages should not be given high priority at this time. Sentiment for an expansion of coverage was more favorable. There was some feeling in favor of differential minimum wage rates. Industries and occupations could be divided into several classes with a different minimum for each class. Industries paying low wages could be raised by gradual steps to the full minimum. And, lower minimum wages might be appropriate for younger, unmarried workers.

The fact that some economists attribute part of the present unemployment to minimum wages was mentioned. The Oates-Nowell plan, described by Reynolds I Nowell, is a means of overcoming some of the adverse effects on employment of a minimum wage law. Under this plan, firms would hire young people who are apparently unemployable at the minimum wage. The government would subsidize the difference between the minimum wage that must be paid to the employee and the wage at which it would be worthwhile for the firm to hire him. As the young worker matured and learned the job the subsidy could be decreased and finally eliminated. In effect, wage negotiations for people included in such a program would be conducted between the firm and the government, rather than the employee. A major objective would be to employ persons currently on unemployment compensation and public assistance.[1]

IV. *Job Creation*

The concept of "job creation" as a selective manpower policy is still poorly defined. Many speakers expressed agreement with Dr. Mangum's comments regarding the necessity for increasing aggregate demand if jobs are to be created. One suggestion was that "job creation" referred to the direct creation of jobs by public spending aimed at disadvantaged groups, as distinguished from indirect job creation by tax reductions and expansionary monetary policy. An alternative suggestion omits the reference to public spending: "The purpose of a job creation program would be to use disadvantaged groups, unlikely to be otherwise employed, for performance of useful and necessary work, unlikely to be otherwise performed."

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[1] Various proposals to subsidize wages have been tried or discussed in the past. For example, in early 19th century England the Speenhamland Plan supplemented whatever amount the firm chose to pay with enough to make the total equal to a budget calculated on the basis of family size and the cost of food. A. C. Pigou discussed a policy of using the amount spent on unemployment compensation as a subsidy to employers (*Economic Journal*, Vol. XXXVII, 1927, pp. 362-5). Abba P. Lerner also discussed the use of subsidies to expand employment in *The Economics of Control.*

Another suggestion was that the analytical use of the term be distinguished from the emotive political use. The specific analytical meaning would refer to (1) changes in the institutional aspects of employment, i.e., new types of management and administration; and (2) the redesign of jobs to make them more attractive to potential workers.

Rehabilitation of slums is frequently suggested as a project to create jobs. The unskilled and the disadvantaged can clean, paint, and make minor repairs, but major projects require skilled craftsmen. This suggests that unions, contractors, occupants, and the government must jointly devise new methods for organizing the work to allow the poor to assist skilled construction workers.

The need for sheltered employment for the disadvantaged was widely accepted. The form and location of the jobs were open to question, as was the meaning of "disadvantaged." Most persons agreed that the mentally and physically handicapped and older workers should not be treated the same as young people who can become productive members of the labor force. The former can be helped to find some comfortable and useful niche; but the latter should be trained for occupations with a future.

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